Testimony for House Subcommittee on General Farm Commodities and Risk Management on "Review of the Efficacy of the Farm Safety Net"

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Chairperson Bustos and members of the Subcommittee on General Farm Commodities and Risk Management, I thank you for the opportunity to address this committee on the topic of a "Review of the Efficacy of the Farm Safety Net." I am a professor in farm management at the University of Illinois. I have worked with Illinois and Midwest farmers, helping those farmers to understand how farm programs impact the risk situations of their operations and make decisions relative to the Federal safety net.

The last five years have been tumultuous in agriculture, with events occurring that were detrimental to agriculture. Trade disputes in 2018 caused commodity prices to fall, resulting in low incomes, particularly for crop farms. Weather and agricultural disaster occurred, including hurricanes, wildfires, and wet weather. In the Midwest, heavy rainfall in late the latter half of 2018 through 2019 caused flooding and widespread delays and prevented planting in 2019. In 2020, the Coronavirus and its attendant control measures led to severe supply chain issues, particularly for livestock and dairy producers, initially leading to sharp declines in prices of agricultural commodities.

According to the Economic Research Service, net farm income U.S. fell from a high of $140 billion in 2012 to an average of $74 billion from 2016 to 2019. Incomes rebounded to a forecast of $123 billion in 2020. Trade disputes, weather issues, along high yields contributing to abundant supply led to these lower incomes. Without the Federal safety net, farm incomes would have been much lower. Payments for farm safety net programs and net insurance payments were 20% of net income in 2018, 33% in 2019, and 59% in 2020.

Traditional farm safety net programs — the commodity title and crop insurance programs — provided support from 2018 to 2020. However, much of the support came from three additional sources:

1. Congressionally passed disaster legislation leading to the Wildfire Hurricane Indemnity Program (WHIP) and WHIP Plus programs.

2. Administration instituted Market Facilitation Program (MFP) to counter adverse impacts of trade disputes and the Coronavirus Food Assistance Program (CFAP) to counter COVID-19 control measure.

3. Small Business Administration (SBA) programs including the Paycheck Protection Program (PPP) and Economic Injury Disaster (EIDL) programs.

One hopes that the worst of the trade disputes and COVID control measures are behind us. Still, the justification for MFP and CFAP programs may have exposed weaknesses in the existing commodity title programs. Many commodities, including corn and soybean, had low prices in recent years including 2018 and 2019. For example, market year average (MYA) prices for soybeans were $8.48 per bushel in 2018 and $8.57 in 2019, their lowest levels since 2006. In both 2018 and 2019, those soybean prices did not trigger PLC payments. ARC payments were at a relatively modest level of $563 million for soybeans in 2019.

WHIP plus provided relief for many producers and included additional payments on crops protected by Federally-regulated crop insurance programs and the Noninsured Disaster Assistance (NAP) program administered by the Farm Service Agency (FSA). In addition, prevent plant payments in 2019 were increased either 15% or 10%, additional payments that offered support that was being provided on planted crops by MFP. These programs perhaps signal needed changes to existing crop insurance programs. Revisiting rating issues may aid in this process. From 2015 to 2018, the loss ratio on all Federal products averaged .67, well below target ratios. Corn and soybeans had lower loss ratios, respectively, at .52 and .53. These loss ratios include 2019, which had relatively large prevent plant payments.

Many commodities have had higher prices since late summer 2020, and income looks good in 2021. This more robust outlook differs from what many -- me included -- would have expected last year at this time, illustrating how situations can change abruptly in agriculture. The committee's evaluation of the efficacy of the programs is timely as the safety net will come into play in the future.