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Before the U.S. House Agriculture Committee Subcommittee on General Farm Commodities and Risk Management

A 2022 Review of the Farm Bill: Economic Perspectives in Title I Commodities and Title XI Crop Insurance

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Chairwoman Bustos, Ranking Member Scott and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center (AFPC) at Texas A&M University as you focus on opportunities to enhance Title I and XI programs. As many of you know, the primary focus of AFPC has been to analyze the likely consequences of policy changes at the farm level with our one-of-a-kind dataset of information that we collect from commercial farmers and ranchers located across the United States.

Our Center was formed at Texas A&M University more than 30 years ago at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agricultural operations across the United States. Since that time, we have worked with the Agricultural Committees in both the U.S. Senate and House of Representatives, providing Members and committee staff objective research regarding the potential farm-level effects of agricultural policy changes.

Working closely with 675 commercial producers located across the United States has provided our group with a unique perspective on agricultural policy. Currently, we maintain the information to describe and simulate 94 representative crop and livestock operations in 30 states. We have several panels that continue to have the original farmer members we started with back in 1983. We update the data to describe each representative farm relying on a face-to-face meeting with the panels every two to three years. We partner with the Food & Agricultural Policy Research Institute (FAPRI) at the University of Missouri which provides projected prices, policy variables, and input inflation rates. The producer panels are provided pro-forma financial statements for their representative farm and are asked to verify the accuracy of our simulated results for the past year and the reasonableness of a six-year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analysis.

In order to provide perspective on Titles I and XI, I wanted to briefly summarize a recent AFPC report that looks at farm profitability in 2022 relative to 2021 for our 64 representative crop farms in the face of higher input and output prices[1].

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[1] *Economic Impact of Higher Crop and Input Prices on AFPC's Representative Crop Farms*, AFPC Briefing Report 22-05. https://www.afpc.tamu.edu/research/publications/files/716/BP-22-06.pdf

For this report, we asked our panel members to provide their costs per acre for 2022 versus 2021 for the major input categories. The average for each category across all respondents is presented in Table 1. Updated commodity prices for the 2021/22 and 2022/23 marketing years and policy variables were obtained from the FAPRI-MU Bulletin #01-22 entitled U.S. Agricultural Market Snapshot, April 2022 (Table 2). While some producers were able to benefit by locking in input prices early in 2021 for this year's crop, most indicated very little ability to lock in these prices even when using their normal tax management strategy of prepaying inputs. Simply, the input suppliers would not lock in a price until the producers agreed to take delivery. Almost every respondent stated they were going to do their best to reduce input usage in the face of the highest costs of production they had ever experienced.

The news is full of stories about inflation that is averaging 8.5 percent so far this year for the average American. The lowest year-over-year inflation farmers are seeing is twice that on seed with most categories many times higher. Commodity prices, while generally higher in 2022, are up less than 8 percent. If not for the incredible productivity of the U.S. farmer, there would be a major financial crisis in agriculture.

Table 1. Average Percentage Change in Representative Farm Input Costs/Acre from 2021 to 2022.

	Seed	Nitrogen Fertilizer	Phosphorus & Potassium Fertilizer	Herbicide	Insecticide	Fungicide	Fuel & Lube
Percentage Change 2021 to 2022	16.58%	133.62%	92.75%	64.23%	40.25%	36.02%	86.63%

Table 2. Projected Commodity Prices Reported in FAPRI April 2022 Update, Marketing Years 2021/22 and 2022/23.

	2021/22	2022/23	Percentage Change
Corn ($/bu)	$5.78	$6.06	4.84%
Wheat ($/bu)	$7.60	$8.08	6.32%
Soybean ($/bu)	$13.27	$14.22	7.16%
Grain Sorghum ($/bu)	$5.87	$6.14	4.60%
Barley ($/bu)	$5.27	$5.60	6.26%
Oats ($/bu)	$4.30	$4.00	-6.98%
Upland Cotton ($/lb)	$0.910	$0.871	-4.29%
Seed Cotton ($/lb)	$0.464	$0.443	-4.53%
Peanuts ($/lb)	$0.238	$0.240	0.84%
Sunflower Seed ($/lb)	$0.318	$0.324	1.89%
Canola ($/lb)	$0.318	$0.295	-7.23%
All Rice ($/cwt)	$15.80	$15.84	0.25%
Long Grain Rice ($/cwt)	$13.75	$14.03	2.04%

The following are highlights of the analysis that are relevant for today's hearing:

- Net cash farm income in 2021 included a significant amount of ad hoc assistance. Absent another infusion of assistance in 2022, we estimate that significant increases in input prices will result in a huge decline in net cash farm income in 2022 (compared to 2021).

- Despite the significant reduction from 2021, higher commodity prices for most crops will likely still result in positive net cash farm income for most of AFPC's representative crop farms. The noticeable outlier is rice – two-thirds of the rice farms are facing losses in 2022.

- The analysis hinges on producers receiving the higher commodity prices forecasted by FAPRI with average yields. With drought being experienced across a significant portion of the country and many other areas facing excess moisture, this assumption may be overly optimistic.

- Having worked with farmers located across the U.S over the last 30 years, I want to make sure you understand we are talking about historic amounts of capital that farmers are putting at risk

Throughout my career, I have referred to the programs in Title I and Title XI as the three-legged stool that serves as the safety net for U.S. producers. The specific commodity programs in Title I have changed over that time, but all generally have the same objective to make-up for shortfalls in prices or incomes. The current programs, agriculture risk coverage (ARC) and price loss coverage (PLC) and the nonrecourse commodity loan program, serve as two of the legs while the federal crop insurance program serves as the third leg.

The following are what I believe to be the most significant shortcomings of all three legs of the stool. Most of my suggestions require additional resources that may be difficult to secure but are necessary.

Price loss coverage (PLC) was established in the 2014 Farm Bill using the cost of production as the basis for setting the level of protection for each covered commodity through reference prices. Counter-cyclical price protection programs like PLC have been used in the U.S. since the 1970s with the notable exception of the 1996 Farm Bill. In the PLC program, I believe your colleagues decided to cover a significant amount (roughly 75 to 85%) of total costs of production realizing the likely negative consequences of providing price protection at higher levels. PLC rates worked fine while inflation was fairly low; however, the reference prices set in the 2014 Farm Bill and continued in the 2018 Farm Bill are in dire need of increases to remain relevant. Producers' costs have increased substantially, and the current reference prices are not providing a relevant amount of protection.

Agriculture risk coverage (ARC) was also established in the 2014 Farm Bill as a second attempt at providing producers a revenue-based safety net program to replace the overly complicated and not widely used average crop revenue election (ACRE) program

first used in the 2008 Farm Bill. ARC uses a 5-year moving average of historical prices and yields to establish a benchmark that is used to determine the level of protection producers receive. While good when coming off of relatively high prices, ARC proved worthless when prices declined and remained relatively flat, providing little protection to producers. This is why that while widely chosen over PLC early in the 2014 Farm Bill, ARC was largely abandoned as a choice of safety net program in recent years. The problem with ARC is that it assumes the historical revenue levels were the appropriate levels that producers should be supported at without any basis such as protecting some level of costs for making that claim. Since ARC has the reference price embedded in the calculations, raising reference prices will make ARC more attractive as a revenue protection safety net alternative.

Assuming these two alternatives are used going forward, instead of forcing producers to pick the tool (ARC or PLC) they want, I would suggest allowing them to receive the benefits of whichever is higher in a given year. This would cost nothing more than if the producers have chosen wisely and selected the appropriate tool and would take a major decision away that only serves as a major distraction to their work in trying to grow a crop. Historically high input costs have also highlighted the shortcomings of basing the safety net on prices and/or gross incomes alone. This may present an opportunity to explore adding margin coverage. However, ARC & PLC have been popular, so I would urge you to proceed with caution. Dairy offers an instructive example. Dairy margin coverage was added in the 2014 Farm Bill, but the initial version was a flop that has taken years (and a lot of money) to improve.

The nonrecourse marketing loan program works as it was designed more than four decades ago; however, despite modest increases for some commodities in the 2018 Farm Bill, the rates have largely remained unchanged over the past 30 years, losing ground to inflation. Providing producers the ability to take out a storage loan or receive a loan deficiency payment on a crop is a very useful marketing tool. The rates need to be raised to increase the amount of the crop that is being protected which will cost money but is significantly less expensive to do at current price levels.

Federal crop insurance is an enormously successful public-private partnership that today stands as the primary safety net tool for U.S. producers. This is due to the program largely using futures prices to annually adjust the amount of protection producers can select. While crop insurance is popular with producers, the little-known secret in the farming community is that bankers "encourage" producers to purchase buy-up levels of crop insurance as a means of protecting the producer and the operating loan banks make to producers. As I have said many times in front of Congress… do no harm to crop insurance and stop outside interest groups from tying provisions of their pet projects to crop insurance – for example, linking climate change practice adoption to insurance program subsidy levels. This runs the risk of creating an unlevel playing field for producers by distorting protection levels and leaving some producers with less protection due to their lack of feasible climate change mitigation alternatives.

While this hearing is about the farm bill, I would be remiss if I didn't mention the last 5 years of ad hoc disaster assistance. I believe the upcoming farm bill provides a clear opportunity to help address some of the shortcomings ad hoc assistance was

designed to address. In the case of WHIP, WHIP+, and ERP, they all essentially are designed to help cover the large deductibles producers face in their crop insurance policies. While the ad hoc assistance over the last 5 years has been vital, it comes LONG after the disaster has come and gone and has been limited to specific causes of loss. Perhaps most important, ad hoc assistance is, by definition, not guaranteed. Farmers already face enough risks and uncertainty – ideally, they wouldn't have to guess at what the safety net might look like as they struggle to put a crop in the ground.

Madame Chairwoman, that completes my statement.