



2012 Farm Bill

THE FARM SAFETY NET

Direct Payments

Direct payments were first established by the 1996 Farm Bill and were described as payments to transition farmers away from the previous target-price, deficiency payment program. However, in the 2002 Farm Bill, direct payments were made permanent instead of phased out. As of March, 2010, ten-year projections for direct payments showed the program accounting for \$49 billion in government spending, which makes up the second-largest portion of the farm safety net, after crop insurance.

Direct payment rates do not depend on market prices and vary by crop as specified by the 2008 Farm Bill. In order to receive the payment, farmers have almost complete flexibility in what they plant but must adhere to various conservation requirements.

Many farmers depend on these payments to cover operating expenses or to secure credit. Direct payments are an acceptable subsidy in the eyes of the World Trade Organization because they do not depend on current production or prices.

Crop Insurance

In 2010, federal crop insurance policies covered 255 million acres. Four crops—corn, cotton, soybeans, and wheat—accounted for three-quarters of total acres enrolled in crop insurance.

Government costs for crop insurance have increased substantially in recent years. After ranging between \$2.1 and \$3.6 billion during 2000 to 2006, costs rose to \$7.3 billion in 2009 because of higher policy premiums from rising crop prices that drove up premium subsidies to farmers and expense reimbursements (which are based on total premiums) to private insurance companies. However, in 2010, total costs declined to \$3.7 billion following a decline in crop prices.

Projections for the next 10 years show that federal spending is expected to total \$82.8 billion, which outpaces spending on traditional commodity programs by about one-third.

Countercyclical Payments

Counter-cyclical payments are crop-specific payments that hinge on the relationship between national average farm prices and government-set target prices. When national farm prices fall below a certain threshold, participating farmers and landowners receive a payment based on their farm's historical acreage and yield.

From 2006 to 2010, counter-cyclical payments averaged \$1.859 billion per year, ranging from \$0.3 billion in 2008 to \$4.0 billion in 2006. Ten-year projections show that counter-cyclical payments will average only \$0.559 billion per year, a reduction due to higher price expectations but also because of some substitution by ACRE payments. Reduced spending levels will also reduce the amount of baseline funding available for the next farm bill.

Disaster Programs

The 2008 Farm Bill included authorization and funding for five new disaster programs to cover losses through 2011, in an attempt to reduce the need for ad hoc disaster assistance. The new supplemental disaster programs were projected to cost \$3.9 billion over the five-year life of the 2008 Farm Bill, which comes to about \$770 million per year. For the sake of comparison, from 2003 to 2009, ad hoc disaster assistance averaged \$1.2 billion per year.

The Supplemental Revenue Assistance Payments Program (SURE) is the largest of the new disaster programs and is designed to compensate producers for losses not covered by crop insurance on the basis of total farm crop revenue. The other disaster programs are the Livestock Indemnity Program, the Livestock Forage Disaster Program, the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program and the tree assistance program.

Average Crop Revenue Election (ACRE)

Introduced in the 2008 Farm Bill beginning in the 2009 crop year, the Average Crop Revenue Election (ACRE) program provides revenue-based support as an alternative to price-based counter-cyclical programs. By giving up 20 percent of direct payments and having loan rates reduced by 30 percent, farmers can enroll their farms in the ACRE program and receive revenue protection based on a state-level, crop specific revenue guarantee.

Analysis prior to the initial 2009 sign-up deadline indicated that the expected level of support from the ACRE program would exceed the level of foregone direct payments required for enrollment. However, adoption of the program has been slow. In 2009, 8 percent of all farms and 13 percent of base acres were enrolled in the program. In 2010, the percentage of farms enrolled nationwide increased by only one quarter of one percent and the percentage of acreage increased by just over one-half of one percent.

Spending Outlays, 2010—2020

Federal Farm Safety Net Programs

