

Statement of Dr. Joe L. Outlaw,
Before the U.S. House of Representatives Committee on Agriculture, Subcommittee
on General Farm Commodities and Risk Management

Formulation of the 2012 Farm Bill:
Commodity Programs and Crop Insurance

May 16, 2012

Chairman Conaway and members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University as you begin to formulate the commodity and risk management provisions of the next farm bill. As many of you know, our primary focus has been on analyzing 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 by our Dean of Agriculture at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agriculture operations across the United States. For 29 years 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 affects of agricultural policy changes.

Working closely with commercial producers has provided our group with a unique perspective on agricultural policy. While we normally provide the results of policy analyses to your staff without commentary, I was specifically asked to provide some preliminary analysis and perspective today.

In 1983 we began collecting information from panels of 4 to 6 farmers or ranchers that make up what we call representative farms located in the primary production regions of the United States for most of the major agricultural commodities (feedgrain, oilseed, wheat, cotton, rice, cow-calf and dairy). Often, two farms are developed in each region using separate panels of producers: one is representative of moderate size full-time farm operations, and the second panel usually represents farms two to three times larger.

Currently we maintain the information to describe and simulate 98 representative crop and livestock operations in 28 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 FAPRI at the University of Missouri who 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 analyses.

The results I am going to discuss today were developed with FAPRI's recently completed January 2012 ten-year baseline projections and will focus on the 64 crop farms located in 19 states.

For this hearing we conducted a preliminary analysis of the PLC program as defined in the farm bill proposal to the Super Committee and the ARC as defined in the Senate Agriculture Committee passed language. We applied these options to the representative farms under the current prices and a low price scenario. In the low price scenario, commodity prices were decreased each year by the same percent for all commodities until they were roughly $\frac{1}{2}$ of the 2011 baseline price. In general, we found the following:

- The ARC program provided higher Title I safety net support than PLC under the Baseline price projections. (43 out of 64 farms)
- The PLC program provided higher safety net support from SCO (Title XI) under the Baseline price projections. (61 out of 61 farms)(3 farms are 100% cotton and would be in STAX)
- Overall, net cash farm income is highest for PLC and SCO for 60 out of 61 farms.
- Under the low price scenario, PLC provided higher Title I safety net support than the ARC program. (51 out of 64 farms)
- The low price and baseline scenario indicated similar net cash farm income results for PLC and SCO.

Additionally, a few points come to mind out of this analysis.

The producer safety net has been an important part of agricultural policy for many years. Not a guaranteed profit or a guaranteed portion of the baseline, but a minimum level of support that will allow a producer to withstand the occasional setback due to poor yields, prices or adverse effects from world events. A lot of attention is being paid to relative payouts under the current CBO baseline, but I think it is much more important to understand how the safety net works when prices fall.

Second, most would agree that the safety net should provide assistance when producers need it and not provide assistance when producers don't need it. Obviously, deciding when and how much assistance producer's need is the key. The discussion surrounding the price loss coverage (PLC) alternative and the agriculture risk coverage (ARC) alternative has been interesting. Most of the attention has been placed on the potential problems that a fixed reference price in the PLC program could create in terms of driving planting decisions. In reality, a reference price will not drive planting decisions if the reference price is set below the cost of production, especially with the relatively high current prices. In the event of a price decline, producers will never receive the actual reference price for their crop due to the 0.85 payment fraction (85%) and the difference between counter-cyclical payment yields and actual yields.

Prior to the 1990s the safety net included target prices, deficiency payments, base acres, and acreage reduction programs. At that time, the safety net did drive planting decisions because program participation required planting on those base acres. This is not the case with currently discussed options as producers are allowed to choose the crop that is expected to be the most profitable for them.

There is the standard complaint that some commodities would not get their “fair share” of baseline dollars with the PLC program. My answer is that if the reference price for the commodity is set taking into account cost of production, then if a commodity didn’t receive any government payments then that commodity didn’t warrant any because market prices were greater than the effective reference price.

What I find most interesting is that no one is talking about the ARC program’s ability to enable some commodities to nearly lock in a profit (for at least a few years) because ARC uses market prices in the revenue benchmark that are near their all-time high. Figures 2-6 provide a 37-year look at the 5-year Olympic average market prices that would be used in the revenue benchmark for selected program crops. The vertical line on each graph indicates the break between historical prices and where CBO March 2012 Baseline prices were used to develop the 5-year average for future years. The horizontal line across each graph is our estimate of the average cost of production for producing the commodity on our representative farms in 2011. You will notice that corn, soybeans, wheat and grain sorghum are projected to have 5 year Olympic average prices that are above 2011 production costs. If paid on planted acres, the revenue safety net program could nearly guarantee a profit to these crops, depending on the final payment fraction while others protected a loss. This disparity in initial protection levels makes it difficult to provide similar levels of support to commodities with low benchmarks when using recent prices to set the revenue benchmark.

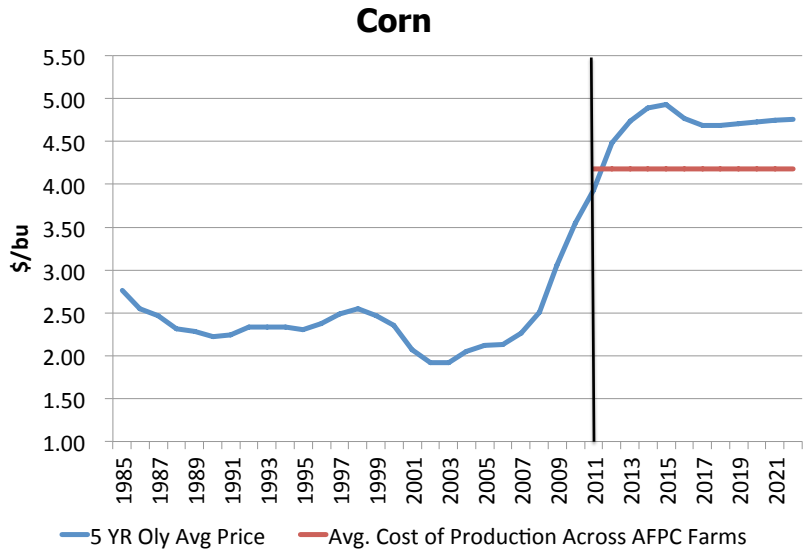
And finally, the days of one safety net program for all program commodities are likely over. Starting with the ACRE program, groups have attempted to capture the recent high market prices by using them to establish the revenue benchmark from which losses would be measured. In reality, this just doesn’t provide every commodity with the same level of safety net protection. It is apparent that many would like to see a revenue based plan that does not work for everyone the same. In this situation, it would seem reasonable to allow producers a choice.

Mr. Chairman, that completes my statement.

Figure 1. Representative Farms and Ranches

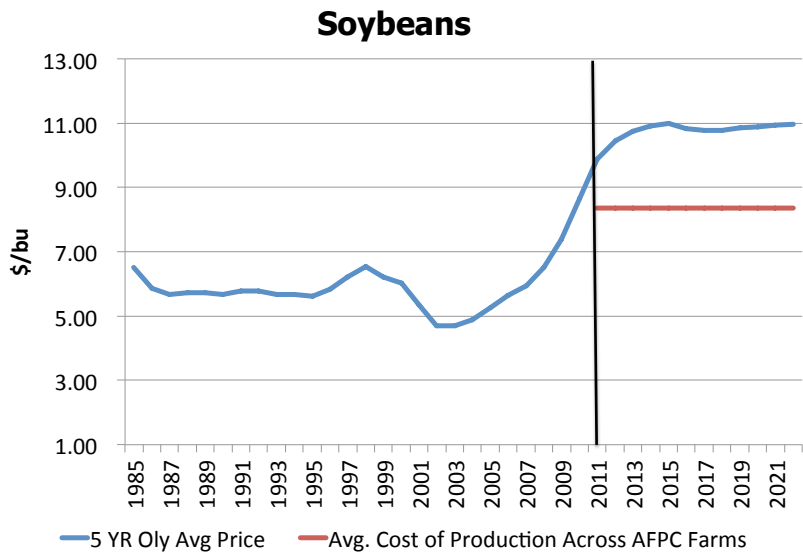


Figure 2. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



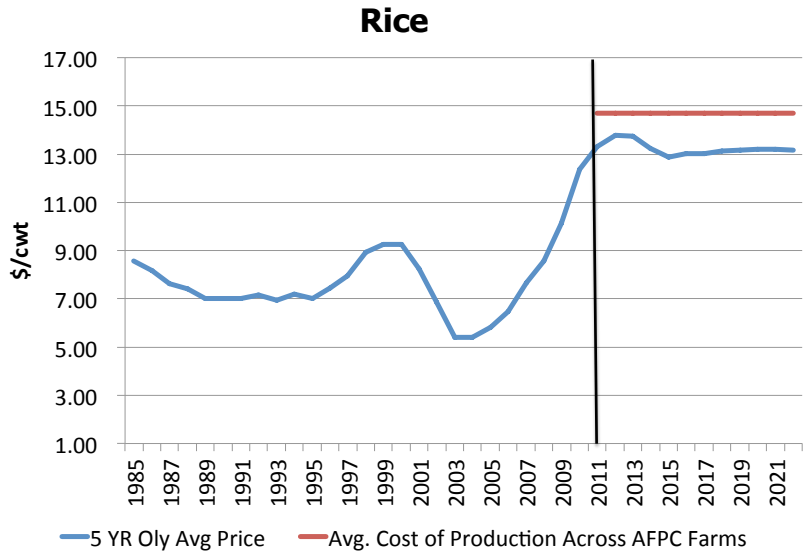
Uses March 2012 CBO estimates for future price in olympic average calculation.

Figure 3. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



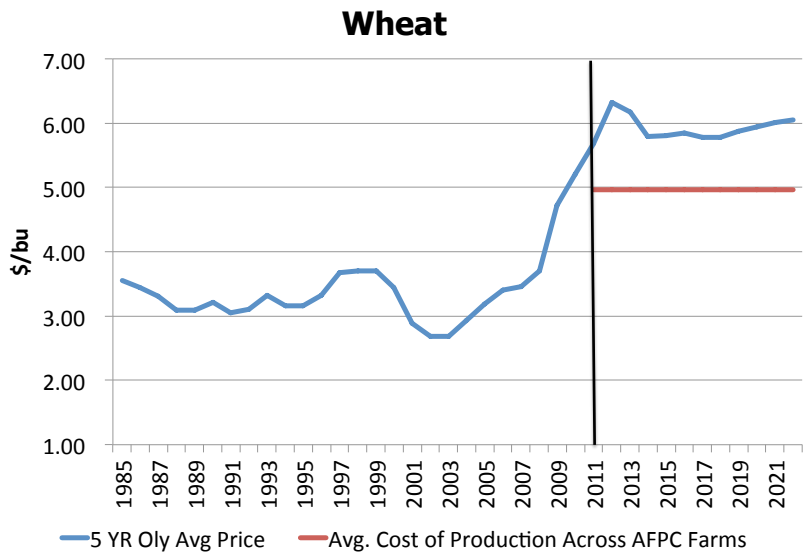
Uses March 2012 CBO estimates for future price in olympic average calculation.

Figure 4. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



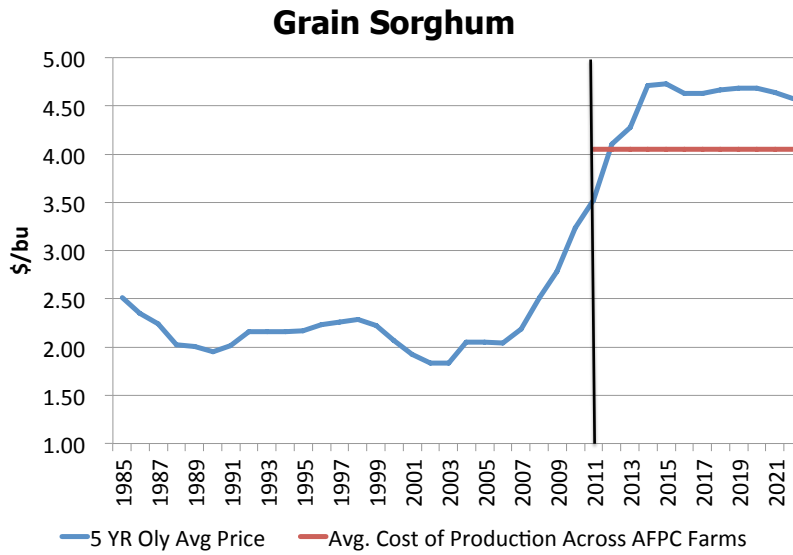
Uses March 2012 CBO estimates for future price in olympic average calculation.

Figure 5. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



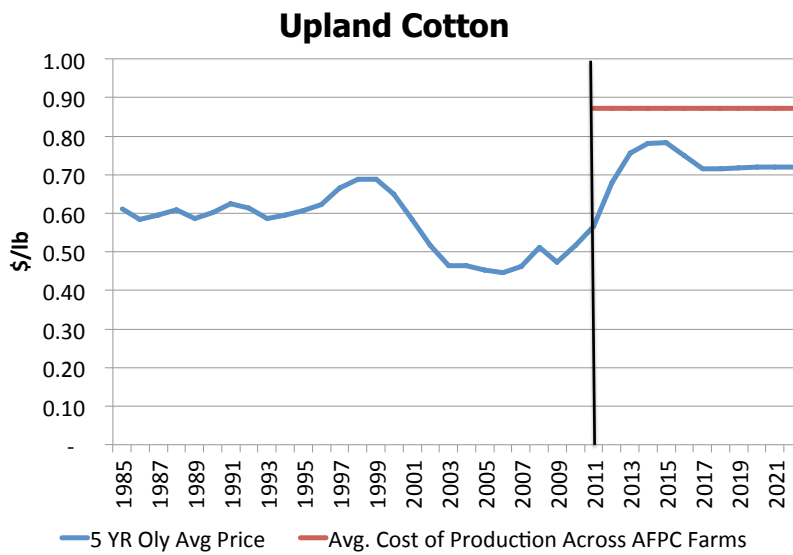
Uses March 2012 CBO estimates for future price in olympic average calculation.

Figure 6. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



Uses March 2012 CBO estimates for future price in olympic average calculation.

Figure 7. Comparison of 5 year Olympic average prices and Average Cost of Production Across AFPC Farms in 2011.



Uses March 2012 CBO estimates for future price in olympic average calculation.

Summary Vitae

JOE L. OUTLAW, Professor and Extension Economist-Farm Management & Policy, Ph.D.

Education and Training

Texas A&M University	Agricultural Economics	Ph.D., 1992
Texas A&M University	Agricultural Economics	MS, 1988
Texas A&M University	Agricultural Economics	BS, 1987

Employment History

2005 – Present	Professor and Extension Specialist - 100% Extension
2000 – 2005	Associate Professor and Extension Specialist
1995 – 2000	Assistant Professor and Extension Specialist
1996 – 1999	Extension Economist District 9 (Southeast Texas)
1992 – 1995	Assistant Research Scientist
1990 – 1992	Research Associate

Summary of Major Honors and Awards

2011	Southern Agricultural Economics Association - Outstanding Teaching of a Course Award.
2010	The Agricultural and Applied Economics Association - Distinguished Extension/ Outreach Program Group.
2010	Southern Agricultural Economics Association - Team Award.
2009	The Gold Quill Award, The Journal of the American Society of Farm Managers and Rural Appraisers (ASFMRA).
2008	Distinguished Achievement Award for Extension, Outreach, Continuing Education, and Professional Development, Association of Former Students University Level Awards.
2008	Outstanding Extension Program Award, Western Agricultural Economics Association.
2007	President's Award, American Agricultural Economics Association.
2003	Distinguished Extension Program Group Award, American Agricultural Economics Association.
2003	Administrator's Award, Farm Service Agency, USDA.

- 2003 Administrator's Award, Farm Service Agency, USDA.
- 2003 Distinguished Extension Program Award, Southern Agricultural Economics Association.
- 1996-97 American Agricultural Economics Association Distinguished Policy Contribution Award.

Professional Affiliations:

- American Agricultural Economics Association (AAEA), 1990-present
- Southern Agricultural Economics Association (SAEA), 1990-present
- Western Agricultural Economics Association (WAEA), 1990-1993, 2003-present
- Rice Technical Working Group (RTWG), 1996-present
- Institute for Equine Science and Technology, Texas A&M University, 1993-1996

Teaching Experience

Agricultural and Food Policy 8 times, 1,004 undergraduates
 Agricultural Marketing 2 times, 120 undergraduates
 Agricultural and Food Policy Quantitative Analysis once, 6 graduate students

Publications by major area of work

Publication Type	Farm/Risk Management	Agricultural Policy	Marketing	Other	Total
Journal Articles	5	10	0	0	24
Cooperative Extension Publications	27	41	8	2	78
AFPC Reports	11	162	13	1	187
Grant Reports	1	1	1	1	4
Book Chapters	1	2	0	1	7
Books Edited and Authored	0	1	0	1	4
Departmental Publications	4	0	0	2	6
Proceedings	39	28	15	11	98
Popular Press	25	8	7	2	42
Congressional Testimony	1	1	1	1	8

**Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form**

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2009.

Name: Joe L. Outlaw

Organization you represent (if any): Agricultural and Food Policy Center, Texas A&M University

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2009, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NIFA Amount: \$2,560,129

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2009, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: Joe L. Outlaw

* Rule XI, clause 2(g)(5) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.