

## **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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June 23, 2021

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.

## **GARY D. SCHNITKEY — Biographical Information**

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**Biographic sketch:** Dr. Gary Schnitkey is the Soybean Industry Endowed Chair in Agricultural Strategy within the Department of Agricultural and Consumer Economics, University of Illinois. His activities focus on farm and risk management on Corn Belt grain farms. He analyzes profitability of farms and develops ways of mitigating risk on farms. He has developed computer tools for examining commodity title alternatives and crop insurance alternatives that appear on *farmdoc*. He writes the Weekly Farm Economics article that appears each Tuesday on the *farmdocDaily* website.

### **University education:**

- Ph.D., Agricultural Economics, August 1987, University of Illinois.
- M.S., Agricultural Economics, August 1984, University of Illinois.
- B.S., Agricultural Economics, June 1982, The Ohio State University.

### **Employment record:**

*Professor, Department of Agricultural and Consumer Economics, University of Illinois.*  
Appointment involves extension education and research. Responsibilities targeted to risk management. (50% extension, 50% research), 1998 to present.

*Associate Professor, Department of Agricultural Economics, The Ohio State University.*  
Appointment involves extension education and research. Extension responsibilities targeted towards dairy farm management, 1994 to 1998.

*Assistant Professor, Department of Agricultural Economics, The Ohio State University.*  
Appointment involves extension education and research. 1987 – 1998.

**Honors:**

- Distinguished Extension Program – Group, American Agricultural Economics Association, 2002.
- University of Illinois, College of Agricultural, Consumer and Environmental Sciences Award in Extension, 2004.
- Distinguished Extension Program – Individual, American Agricultural Economics Association, 2018.
- Funk Award for Excellence, College of Agricultural, Consumer and Environmental Sciences Award in Extension, 2019.

**GARY D. SCHNITKEY**

**Vitae**

**Contact information:**

Department of Agricultural and Consumer Economics, University of Illinois; 300a Mumford Hall; 1301 W. Gregory Drive; Urbana, Illinois 61801; phone (217) 244-9595; email schnitke@illinois.edu.

**Extension/Research Activities:**

Farm management with emphasis on risk management. I have been involved in the development of risk management tools that are used nationwide including 2014 Farm Bill Toolbox, FAST (Microsoft Excel spreadsheets), *Ifarm* insurance evaluators (Web-based tools) and AgRisk (stand-alone micro-computer package). These tools are available at *farmdoc* ([www.farmdoc.uiuc](http://www.farmdoc.uiuc)). I publish nationally in academic journals and popular press outlets. I co-author at least one article per week on *farmdocDaily* ([www.farmdocDaily.illinois.edu](http://www.farmdocDaily.illinois.edu))

**University Education:**

*Ph.D.*, Agricultural Economics, August 1987, University of Illinois.

*M.S.*, Agricultural Economics, August 1984, University of Illinois.

*B.S.*, Agricultural Economics, June 1982, The Ohio State University.

**Employment Record:**

*Full and Associate Professor*, Department of Agricultural and Consumer Economics, University of Illinois. Appointment involves extension education and research. Responsibilities targeted to risk management. (50% extension, 50% research), 1998 to present.

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**Honors:**

Distinguished Extension Program – Group, American Agricultural Economics Association, 2002.

University of Illinois, College of Agricultural, Consumer and Environmental Sciences Award in Extension, 2004.

University of Illinois, College of Agricultural, Consumer and Environmental Sciences Group Award in Extension, 2010.

University of Illinois, College of Agricultural, Consumer and Environmental Sciences Group Award in Extension, 2011.

Distinguished Extension Program – Group, American Agricultural Economics Association, 2015;

Distinguished Extension Program – Group, American Agricultural Economics Association, 2016;

### Journal articles:

Over 50 articles published. Below is a selection:

Sherrick, B.J., F.C. Zanini, G.D. Schnitkey, and S.H. Irwin. "Crop Insurance Valuation under Alternative Yield Distributions." *American Journal of Agricultural Economics*, 86(2004): 406-419.

Irwin, S.H., G.D. Schnitkey, D.L. Good, and P.N. Ellinger. "The *farmdoc* Project: This is Still Your Father's Extension Program." *American Journal of Agricultural Economics*, 86(2004): 772-777.

Zulauf, C.R., G. D. Schnitkey, and M. Langemeier. "Acre, Crop Insurance, and Sure: Interactions and Overlap for U.S. Midwest Crops." *Journal of Agricultural and Applied Economics*. 32(2010): 501-15.

Paulson, N.D. and G.D. Schnitkey. "Expected Payments and Considerations for the New ACRE Program." *Journal of American Society of Farm Managers and Rural Appraiser*. 73(2010):

Woodard, J.D., G.D. Schnitkey, B.J. Sherrick, N. Lozano, and L. Anselin. "A Spatial Econometric Analysis of Loss Experience in the U.S. Crop Insurance Program." *Journal of Risk and Insurance*. 2011.

Paulson, N.D., G. Schnitkey, and B. Sherrick. "Rental Arrangements and Risk Mitigation of Crop Insurance and Marketing: Impacts in the Corn Belt." *Agricultural Finance Review*. 70(2010): 399-410.

Woodard, J.D., B.J. Sherrick, and G.D. Schnitkey. "Actuarial Impacts of Loss Cost Ratio Ratemaking in U.S. Crop Insurance Programs." *Journal of Agricultural and Resource Economics*. 36(2011): 211-28.

Schnitkey, G.D. and B.J. Sherrick. "Income and Capitalization Rate Risk in Agricultural Real Estate Markets." *Choices*. 2012.

Woodard J.D., K.D. Pavlista, G.D. Schnitkey, K.L. Burgener, and B.L. Ward. "Government Insurance Program, Design, Incentive Effects, and Technology Adoption: The Case of Skip-Row Crop Insurance." *American Journal of Agricultural Economics*. 94(2012): 823-837.

Sherrick, B.J., C. Lanoue, J.D. Woodard, G.D. Schnitkey, N.D. Paulson. "Crop Yield Distributions: Fit, Efficiency and Performance." *Agricultural Finance Review*. 74(2013).

Paulson, N.D., and G.D. Schnitkey, and P. Kelly. "Evaluating the Marginal Risk Management Benefits of the Supplemental Coverage Options, *Agricultural Finance Review*, 76(2016):3

Paulson, N.D., G.D. Schnitkey, J. Coppess, and C. Zulauf. "An Overview of the Decision and Changed Made in the 2014 Farm Bill. *Journal of Farm Mangers and Rural Appraisers*, forthcoming.

Schnitkey, G.D. and C. Zulauf. "The Farm Safety Net for Field Crops". *Choices*. 31(2016): 1-8.

Ellison, B., N.D. Paulson, M.R. Taylor, G.T. Tonsor, J. Coppess, and G.D. Schnitkey. "Evaluation of Educational Offerings Associated with the 2014 Farm Bill. *Applied Economic Perspectives and Policy*. 39(2017): 547-558.

### FarmDocDaily Articles:

Each Tuesday a farmdocDaily article is published dealing with some aspect of the economics of corn belt farming. Content from these articles has appeared in popular press outlets including *Illinois AgriNews*, *Farm Journal*, *Farm Week*, *Prairie Farmer*, *Successful Farming*, *Top Producer*, *Wall Street Journal*. Often, these articles are reprinted in farm publications. Below are selected publications:

- "Do Some Farms Consistently Have High Profits?" July 20, 2001.
- "Updating Acres and Yields Under the Farm Security and Investment Act of 2002." June 5, 2002 (with Dale Lattz).
- "Crop Rotations in 2003: More Wheat and Corn?" Sept 23, 2002.
- "Historical Cropping Patterns on Illinois Grain Farms." February 28, 2003.
- "GRIP-HR: An Analysis of Returns and Risks." February 11, 2004.
- "Planter Costs for Alternative Farm Sizes." March 2004.
- "The Economics of Adding More Corn to Corn-Soybean Rotations." November 2004.
- "Crop Insurance Decisions in 2005." February 2005.
- "2005 and 2006 Crop Budgets: Implications for Cash Rents and Production Decisions." August 2005 (with D.H. Lattz).
- "The Biotech Yield Endorsement (BYE)." January 2008
- "Impact of Rising Crude Oil Prices on Corn and Soybean Production Costs." May 2008 (with Anuj Gupta).
- "Fertilizer Prices Likely to Decline in 2009." January 2009
- "Late Planting and Crop Insurance." June 2009.
- "Crop Budgets: Implications for Crop Rotations and Returns." August 2010.
- "COMBO's Product Released for 2011 Crop Insurance Year." September 2010.
- "Farmland Price Outlook: Are Farmland Prices Too High Relative to Returns and Interest Rates." October 2010.
- Prevented Planting Payments versus Planting Soybeans, June 2013.
- Returns and Costs Given \$4.80 Corn and \$10.75 Soybean Prices, July 2013.
- Farmland Bill Deadline Decisions and the Farm Bill Toolbox, September 2014
- Base Acre and Yield Updating Tool, December 2014
- Yield Exclusion: Description and Guidance, January 2015
- Magnitude of Needed Decreases in 2016 Cash Rents, August 2015
- Cutting \$100 per Acre in Costs for Corn and Soybeans, September 2015.
- Taking Losses on Cash Rent farmland to Avoid Losing Farmland: A Risky Strategy, October 2015
- Farmer Balance Sheets Given Farmland Price Decreases, December 2015
- Corn Seed Costs from 1995 to 2015, November 2015.
- Anhydrous Ammonia, Corn, and Natural Gas Prices Over Time, June 2016
- The Danger of Refinancing, August 2016
- Financial Performance of Illinois Grain Farms: Deterioration in 2015, October 2016
- Rising Interest Rates and Farmland Prices, December 2016
- The Federal Safety Net for 2017, March 2017
- 2017 Break-even Prices for Corn and Soybeans to have the Same Profitability: Revisited, April 2017.
- Differences in Revenues and Costs For Higher and Average Return Grain Farms, June 2017 (with Nick Paulson and Dale Lattz)
- Negative Cash Rent Returns Since 2014 Reducing Farmer Net Incomes (August 2017)

### **Extension Reference Material:**

Involved in "baseline publications" available in the *Illinois Farm Management Handbook* available in the management section of *farmdoc* ([www.farmdoc.illinois.edu/manage](http://www.farmdoc.illinois.edu/manage)):

- Machinery Costs (with Dale Lattz), since 2000.
- Illinois Crop Budgets (with Dale Lattz), since 2000.
- Historic Corn and Soybean costs (with Dale Lattz), since 2000.

### **Software Development:**

Co-developer of the *Financial Analysis Solution Tools (FAST)*. *FAST* is a series of Microsoft Excel spreadsheet tools that are decision-support aids available on *farmdoc* ([www.farmdoc.uiuc.edu](http://www.farmdoc.uiuc.edu)). Over 12,000 copies of this software have been distributed to users. In 2004, the Risk Management Agency, U.S. Department of Agriculture awarded a \$389,000 grant for continued *FAST* development. Selected tool are:

Schnitkey, G.D., B.J. Sherrick, and D. Lattz *Farm Rent Evaluator*. Department of Agricultural and Consumer Economics, University of Illinois, November 2003.

Schnitkey, G.D., and B. Pulley. *Grain Delivery Model*. Department of Agricultural and Consumer Economics. University of Illinois at Urbana-Champaign. 2004.

Schnitkey, G.D. *Crop Insurance Decision Tool*. Department of Agricultural and Consumer Economics. University of Illinois at Urbana-Champaign. each year since 2007

Schnitkey, G.D. *ACRE Comparison Tool*. Department of Agricultural and Consumer Economics University of Illinois at Urbana-Champaign. 2008.

Schnitkey, G.D., L. Hoffman, D. Good, S. Irwin, and R. Batts. *ACRE Payment Evaluator*. Department of Agricultural and Consumer Economics. Of Illinois at Urbana-Champaign. 2010.

Schnitkey, G.D., *ARC-CO/PLC Payment Evaluator*, Department of Agricultural and Consumer Economics. Of Illinois at Urbana-Champaign. 2014.

Schnitkey, G.D., J.W. Coppess, N. Paulson. *2014 Farm Bill Toolbox*, Department of Agricultural and Consumer Economics. Of Illinois at Urbana-Champaign. 2014.

Co-developer of web based tool available on *farmdoc* for evaluating crop insurance decision:

Schnitkey, G.D., B.J. Sherrick, S.H. Irwin, and W. Li. *iFARM Crop Insurance Premium Calculator*. Each year since 2004.

Sherrick, B.J., G.D. Schnitkey, S.H. Irwin and W. Li. *iFARM Crop Insurance Evaluator*. Each year since 2004.



## Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)\* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee: General Farm Commodities and Risk Management

Hearing Date: 06/23/2021

Hearing Title :

"A Hearing to Review the Efficacy of the Farm Safety Net"

Witness Name: Gary Schnitkey

Position/Title: Professor

Witness Type:  Governmental  Non-governmental

Are you representing yourself or an organization?  Self  Organization

If you are representing an organization, please list what entity or entities you are representing:

I am representing the University of Illinois. I am a professor in the Department of Agricultural and Consumer Economics.

### **FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY**

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

**Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.**

**Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.**

**Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.**

- I have attached a written statement of proposed testimony.
- I have attached my curriculum vitae or biography.

\* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) 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.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.