Understanding THE FARM BILL

Revenue Based Countercyclicals: A Poor Substitute

As the U.S. Senate and House of Representatives write the 2007 Farm Bill, a key element will be revenue-based counter-cyclical payments (RCCPs). The House bill passed on July 27, offers RCCPs as an alternative to the price-based CCPs established in the 2002 Farm Bill to compensate farmers for the commodity price collapse that followed the 1996 Farm Bill.

In the proposed House and Senate versions, per acre average yield is multiplied by an average annual price to calculate actual per acre revenue for all covered crops. If average per acre revenue is less than the target revenue set by Congress, taxpayers make up the difference. The main RCCP controversy in the House and Senate is whether to calculate average yield nationally, by state, or by county.

What's wrong with RCCPs?

According to Senator Kent Conrad (D-N.D.), a RCCP program based on a national yield average would not work for states such as his, where yield varies greatly from year to year and county to county. Farmers in counties suffering low yields likely would not be helped by nationally calculated RCCPs. The U.S. Department of Agriculture favors a national yield average calculation because it would result in fewer and lower RCCP payments to farmers, in keeping with the Bush Administration budget reduction goals.

Yield decreases are usually localized, e.g., from pest infestation or weather event. A RCCP formula based on county yields would be more expensive because it would be more responsive to how yield actually fluctuates. House Agriculture Chair Collin Peterson (D-Minn.) said county based RCCPs would cost an additional $5 billion beyond Bush mandated budget limits, so the House bill offers farmers the option of signing up for price-based CCPs. Senators Dick Durbin and Sherrod Brown have proposed RCCPs be calculated based on state yields to be used as a risk management tool for revenue loss not covered by crop insurance. But it is doubtful such a tool could compensate adequately for yield differences within states.

Why RCCPs?

The push for RCCPs is part of a Bush initiative to write a Farm Bill "beyond challenge" at the World Trade Organization. Brazil successfully challenged U.S. price-based CCPs (U.S. Upland Cotton Subsidies) in 2004. A WTO dispute panel ruled CCPs "distorted" trade by incentivizing over-production of a specific crop. The RCCP program is supposed to be immune from challenge because its payments cover aggregate acreage regardless of crop, and because price and yield are calculated according to a historical base period. But the difficulty of administering the complex RCCP formula and the RCCP synergy with U.S. subsidized crop insurance have caused some to doubt its compatibility with WTO rules.

IATP's bottom line

Underlying RCCP proposals is the USDA forecast that grain and oilseed prices will remain well above the cost of production through 2016. But the USDA erroneously predicted similarly happy times following the 1996 Farm Bill. Rather than take price as a given and yield as the only variable, Congress should provide an effective price floor mechanism and re-establish the market-based supply and demand tools stripped from the 1996 Farm Bill. Absent such tools in the 2007 Farm Bill, county-based RCCPs will provide affected farmers with some income stability in the event that USDA price forecasts are wrong again and/or that yields drop dramatically in some parts of the country.

Learn more

Suppan, Steve. "Revenue-based countercyclical payments: U.S. policy disaster relief?" IATP. April 2007. http://www.iatp.org/iatp/publications.cfm?accountID=258&refID=98065

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