How does the commodity program of the current Farm Bill stack up against past programs? The good news for Illinois corn and soybean producers is that, under reasonable price expectations, the current program provides a larger safety net than those provided by past programs. The bad news is that this increased support creates a political risk that needs to be fully recognized when making long-term investments.

The present loan and counter-cyclical programs have two general “safety net” effects as commodity price falls and program payments are made. The first effect is to raise income above that received in the market place. The second is to reduce income variability from year to year.

As part of a recent study at the University of Illinois on commodity programs, these two effects were measured for the 1974-2001 program payments triggered by price or income level (excluding predetermined payment programs such as AMTA). The income and variability measures were made on a per acre basis, accounting for program costs associated with acreage reduction programs.

It was found that, on average, payments triggered by low commodity prices increased the net revenue per corn acre by about $23 over the past three decades. Income variability was reduced by about 25%. Given these benchmarks, a computer simulation analysis was then used to compare the effects of current and past programs.

Assessment of today’s programs relative to past programs depends very much on one’s view of the variability and long-run “equilibrium price” of corn and soybeans. If one believes that the general price level will be relatively high then the resulting forecast of LDP and counter-cyclical payments will be low. Of course, as the general price level falls, expected payments increase. For a given level of price variability, there is an average price where existing price-responsive programs have the same expected income and risk-reduction effects as those of past programs.

Our research suggests that if price variability is similar to the 1974-2001 level, then the expected income-enhancement and risk-reduction effects of current loan and counter cyclical provisions are about equal to the effects of past programs if the long-run price of corn is in the range of $2.30 to $2.40. If the long-run price is below this general level, the safety net created by today’s loan and counter-cyclical programs is of greater value than past safety nets. Importantly, this result does not include direct (fixed) payments, which now average about $27 per corn acre in Illinois.
But there is no free lunch. Today’s safety net leads to tomorrow’s political risk. To the extent that the income-enhancement and risk-reducing effects of today’s programs are capitalized into land prices, changes in future programs will lead to changes in land values. Budget concerns, high crop prices, WTO discussions, and changing attitudes toward “fixed” payments are among the many reasons why future safety nets could shrink considerably. Land valuation decisions should include very careful and explicit recognition of this risk.