

Yield Risk, Price Risk and Political Risk: How Safe is Your Safety Net?

Robert J. Hauser and Bruce Sherrick
Department of Agricultural and Consumer Economics
University of Illinois

Executive Summary

- I. The risk or variability in crop revenue received from the market from year to year can be broken down into risk that is attributable to yield changes and risk that is attributable to price changes. Such an analysis for Illinois corn and soybean farms indicates that:
 - a surprisingly large share of the crop revenue risk stems from price variability, while a relatively small share is due to yield changes,
 - corn contributes to revenue variability in a much larger way than soybeans,
 - the general results hold whether one is examining state, county, or farm-level data.
- II. Government support programs have traditionally been aimed mostly at the largest contributor of year-to-year revenue variability (corn price). Over the past thirty years in Illinois:
 - the average support payment, after accounting for set-aside requirements, was about \$23 per corn acre, reducing “risk” by about 25%,
 - the “largest” periods of support were 1986-1988 and 1999-2001,
 - these two periods have similar levels of support in terms of real dollars per acre, but on another basis (real dollars per farm unit), the 1999-2001 period has a much higher level of support.
- III. When comparing the current 2002 Farm Bill to those of the past three decades:
 - at corn prices of \$2.40 - \$2.45, the current CC and LDP programs provide as much income support and risk-reducing capability as past programs; lower prices lead to even larger support and risk-reducing effects,
 - the above effects do include direct payments or adjustments for farm size,
 - consequently, it is reasonable to conclude that current programs are highly effective in reducing risk and supporting income.
- IV. There is no free lunch. The income-support and risk-reducing effectiveness of the current

program creates a large political risk that should be recognized when making land valuation decisions.