September 22, 2022

Farm Bill Primer: Farm Safety Net Programs

The so-called federal "farm safety net" is a collection of programs administered by the U.S. Department of Agriculture (USDA) that provide risk protection and income support to farmers in the United States who experience natural disasters, adverse growing conditions, and/or low market prices. Program payments are triggered automatically based on production, weather, and/or market conditions. Farm safety net programs fall into three categories: the federal crop insurance program (FCIP), standing agricultural disaster programs, and agricultural commodity support programs. The FCIP and standing agricultural disaster programs are permanently authorized under various laws. The commodity support programs are authorized through the 2023 crop year by the Agricultural Improvement Act of 2018 (2018 farm bill; P.L. 115-334). The 2018 farm bill continued the farm safety net programs from the prior farm bill with relatively minor changes. If continued in the next farm bill, the Congressional Budget Office estimates the combined federal cost of farm safety net programs to average about $13.4 billion annually for FY2023-FY2032, not adjusted for inflation

In addition to the farm safety net programs, Congress appropriated and the Administration initiated ad hoc farm support between 2018 and 2021, providing additional disaster and income assistance to farmers. Payments from ad hoc programs have at times exceeded payments from farm safety net programs, raising questions about the effectiveness of the farm safety net that Congress may choose to consider in the next farm bill.

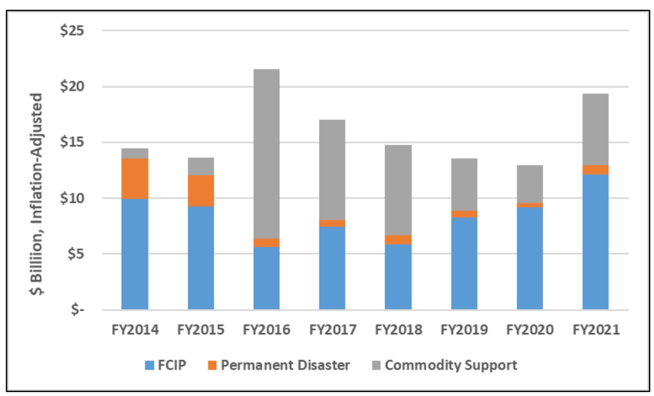
Farm Safety Net Programs

The first category of farm safety net programs includes the FCIP, a program that offers farmers the opportunity to purchase insurance coverage from private sector insurers to help mitigate the financial consequences of certain market and adverse growing conditions. The federal government regulates the policies offered and subsidizes the premiums that farmers pay in order to encourage farmer participation in the program. These subsidies cover on average 62% of the premium for policies sold in 2021. FCIP coverage is available for most field crops, a wide variety of specialty crops, certain types of livestock and animal products, and grazing lands. For more information on the FCIP, see CRS Report R46686, *Federal Crop Insurance: A Primer*.

The second category includes permanent programs that provide financial assistance to help producers recover from certain natural disasters. In this category, the Noninsured Crop Disaster Assistance Program (NAP) offers farmers the opportunity to purchase coverage for losses due to natural disasters in areas where FCIP coverage is unavailable. NAP support is available for a wide variety of crops. Other standing disaster assistance programs include the Tree Assistance Program (TAP) for qualifying tree, bush, and vine crops; the Livestock Indemnity Program (LIP); the Livestock Forage Disaster Program (LFP); and the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP). ELAP support is available for producers of certain livestock, honey bees, and farm-raised fish. For additional information on disaster assistance programs, see CRS Report RS21212, *Agricultural Disaster Assistance*.

Commodity support programs, the third category, provide price and income support to farmers. Eligible producers of eligible field crops—including corn, soybeans, wheat, cotton, rice, peanuts, and certain other crops—may receive support from the Agriculture Risk Coverage (ARC) and/or Price Loss Coverage (PLC) programs. PLC coverage cannot be combined with ARC coverage for the same commodity. Eligible producers of an expanded list of eligible commodities may receive support from either the Marketing Assistance Loan (MAL) program or the Loan Deficiency Payment (LDP) program. Dairy producers are eligible for income support from the Dairy Margin Coverage (DMC) program. Producers of sugar beets, sugar cane, and refined sugar benefit from the MAL program and marketing allotments. For additional information, see CRS Report R45730, *Farm Commodity Provisions in the 2018 Farm Bill (P.L. 115-334)*.

Figure 1. Farm Safety Net Program Outlays, FY2014-FY2021



Source: CRS calculations using audit reports of the Federal Crop Insurance Corporation and USDA Budget Explanatory Notes for the Commodity Credit Corporation, various years.

Notes: FCIP = federal crop insurance program. Adjusted for inflation using the U.S. Bureau of Economic Analysis Implicit Price Deflators for Gross Domestic Product where 2021=100, updated July 28, 2022. Commodity support outlays were relatively lower in FY2015 and relatively higher in FY2016 due to Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) program implementation requirements. FY2016 commodity support outlays include ARC and PLC payments for the first two years of program operations.

Magnitude of the Farm Safety Net

Farm safety net program outlays vary by year (**Figure 1**). Adjusted for inflation, annual federal outlays for FY2018-FY2021 averaged $8.9 billion for the FCIP, $660 million for the standing disaster assistance programs, and $5.7 billion for the commodity support programs. Outlays for the FCIP and disaster assistance programs tend to increase with increasing commodity prices, while outlays for commodity support programs tend to increase with decreasing commodity prices.

Farm safety net program payments are proportional to production. In the 2018-2020 calendar years, the top 10% of farms in terms of gross farm income on average received more than 70% of FCIP indemnities and commodity-related payments. For additional information, see CRS Report R47051, *U.S. Farm Income Outlook: 2021 Forecast*.

Constraints on Farm Safety Net Programs

Once authorized in a farm bill, farm safety net programs face few budgetary constraints on program execution. All farm safety net programs are funded with mandatory appropriations of "such sums as necessary." None of the farm safety net programs requires federal disaster designations to trigger payments. Disaster assistance and commodity support program payments are generally determined by formulas specified in statute.

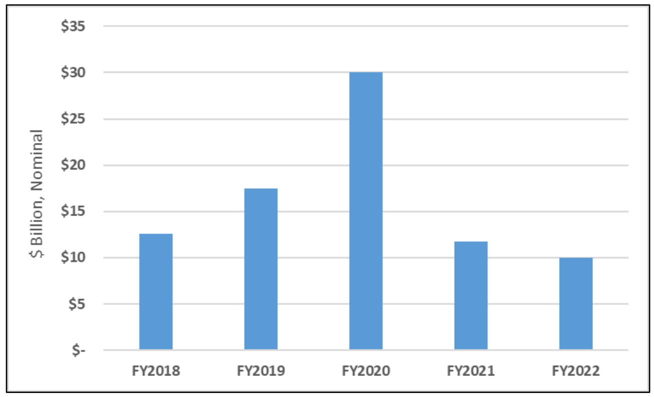
Farmers may experience constraints on participating or on benefits received from certain farm safety net programs. Certain commodity support and disaster assistance programs include statutory mechanisms to limit program payments and/or restrict eligibility based on the farm operators' adjusted gross incomes. Farmers do not pay to participate in many, but not all, farm safety net programs. The most popular types of FCIP, NAP, and DMC coverages require farmer-paid premiums.

Legislative changes to the farm safety net programs face certain limitations. Currently, all farm safety net programs have budget *baseline*—meaning that the programs have built-in future funding if policymakers decide to continue them past the expiration of the 2018 farm bill. Since 2002, Congress' ability to maintain or expand support from farm safety net programs during farm bill reauthorizations has been constrained due to congressional budget rules and available baseline. For additional information about budget issues in the context of the 2018 farm bill, see CRS Report R45425, *Budget Issues That Shaped the 2018 Farm Bill*. Also, U.S. commitments to limit trade-distorting support under the World Trade Organization's (WTO's) Agreement on Agriculture create additional considerations for the types of farm support and the total funding for farm safety net programs. For additional information, see CRS Report R46577, *U.S. Farm Support: Outlook for Compliance with WTO Commitments, 2018 to 2020*.

Additional Farm Support Since 2018

Since the enactment of the 2018 farm bill, USDA has created ad hoc farm support programs using funds appropriated by Congress and funds from the Commodity Credit Corporation. These programs provided various types of relief: supplemental disaster assistance for the 2018-2021 crop years, supplemental FCIP prevented planting payments for the 2019 crop year, supplemental support in 2018-2019 in response to retaliatory tariffs imposed by foreign trading partners, and supplemental support in 2020-2022 in response to the outbreak of the COVID-19 pandemic, among other ad hoc support (**Figure 2**).

Figure 2. Ad Hoc Appropriations and Administration-Initiated Funding for Farm Support, FY2018-FY2022



Source: CRS calculations using P.L. 115-123, P.L. 116-20, P.L. 116-94, P.L. 116-136, P.L. 116-260, P.L. 117-43, and USDA press releases.

Notes: While most was for farm support, USDA was authorized to use a portion of the FY2020 and FY2021 funds for purposes other than direct farm support.

Issues for Congress

The farm safety net programs have been established over time to provide a measure of stability in the farm sector and to promote an adequate supply of certain agricultural products while allowing producers to respond to market signals. The extent of support provided by these programs each year reflects certain policy priorities and budget constraints at the time of farm bill reauthorization. Some ad hoc support since 2018 augmented payments from farm safety net programs. Others compensated for losses not addressed by the farm safety net and/or expanded the set of commodities and producers eligible to receive support. Most of the ad hoc support appropriated since 2018 was exempt from the budget rules that apply to farm bill programs and discretionary spending.

In view of the supplemental payments to the farm sector in recent years, Congress may consider what level of farm support is adequate to fulfill current policy objectives and whether the farm bill safety net programs are sufficiently flexible to respond to changing circumstances. Congress also may consider whether the combination of spending on farm revenue support programs and supplemental spending exceeds annual spending limits on trade-distorting domestic support payments that the United States has agreed to under WTO rules. If Congress seeks to have the next farm bill be budget neutral, any expansion in farm safety net programs may require funding reductions for other farm bill priorities.

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