

Understanding the Economic Factors Influencing Farm Policy Preferences

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Executive Summary

The future direction of farm policy is currently a topic of vigorous and widespread debate. As Congressional leaders and the Clinton administration continue to seek solutions to concerns expressed by producers and their representative organizations, they are often confronted by divergent messages from various regions and producer groups. This research investigates producer preferences for alternative policies. It is based on a statistically stratified sample of 1,812 crop producers in Indiana, Mississippi, Nebraska, and Texas. Beyond reporting the policy preferences of the survey respondents, we further examine the economic factors that underlie these preferences.

Survey Procedures

A survey conducted in the spring of 1999 elicited producers preferences for various farm policy changes. This survey was conducted as part of a research project funded through a USDA risk management education initiative. The crop emphasis in each state is as follows: corn and soybeans in Indiana and Nebraska; cotton and soybeans in Mississippi; and cotton and grain sorghum in Texas. The state Agricultural Statistical Service in each state was contracted to sample from their pool of commercial farms generating more than \$25,000 in gross income. Producers were asked to make a comparison between two policy alternatives and to state their preference for one or the other. Questions were posed in comparison form to force the producer to evaluate which program they prefer. Five possible responses were allowed: Strongly Agree, Agree, Disagree, Strongly Disagree, or Not Sure. In this analysis, a response of strongly agree or agree is treated as concurrence with the statement.

Policy Choices Examined

The analysis investigates the following four policy alternatives:

- Eliminate transition payments and go back to deficiency payments.
- Subsidy should be increased on higher crop insurance coverages, rather than increasing the level of catastrophic coverage.
- Raise loan rates, rather than increase crop insurance funding.
- Provide insurance premium subsidies, rather than make disaster payments.

Results

Fifty-six percent of the sample indicated that they would prefer to go back to the deficiency payment program. Increased insurance subsidies over increased catastrophic coverage is shown to be preferred by 53 percent of the survey respondents. Of the four dependent variables, the lowest level of

agreement was indicated for the question asking a preference for increased loan rates versus an increase in insurance subsidies. Only 42 percent of respondents agreed with this statement. Finally, 54 percent of respondents agreed with increased funding for insurance programs rather than disaster programs.

Econometric models were estimated to explain producer preferences. The results of these models indicate several significant relationships between economic variables and preferences for farm policy. Significant relationships include:

- Larger farms prefer more insurance subsidy to increased catastrophic coverage and reveal they prefer increased loan rates to more insurance subsidy.
- The percent of acres planted to corn and cotton take opposite signs. Cotton producers are significantly more likely to prefer a return to deficiency payments and prefer increased insurance subsidy over catastrophic coverage. Percent of acres planted to corn takes the opposite sign in both models.
- Producers perceiving yield variability as having a significant potential to affect them have a lower probability of preferring to go back to deficiency payments and are more likely to prefer insurance subsidy to disaster payments.
- Those perceiving a high degree of price risk are less likely to prefer insurance subsidy over catastrophic coverage and are more likely to prefer increased loan rates to insurance subsidy.
- Those perceiving a negative correlation between price and yield have a higher probability of preferring insurance to disaster programs.
- Risk aversion has a significant positive effect in the preference for increased insurance subsidy over increased catastrophic coverage and a preference for insurance over disaster programs.
- The purchase of buy-up insurance is consistently related to a preference for increased insurance subsidy, rather than increased loan rates, disaster programs, or increased catastrophic coverage. This suggests that those who have participated in buy-up insurance tend to find it useful, and would like additional resources devoted to it.
- A below average farm income in 1998 is positively associated with a desired return to deficiency payments and increased loan rates over insurance subsidy. It is also negatively related to a preference for insurance over disaster programs. Thus, this group tends to not favor policy trends toward Freedom to Farm and expanding crop insurance programs.
- College education is the only variable significant in all four models and is positively associated with the policy trends of the 1990's -- toward Freedom to Farm and expanding crop insurance programs.
- Producers who perceive farm program risk are inclined to prefer a return to past policies. This variable is positively related to a preference for a return to deficiency payments and increased loan rates over insurance subsidy.