

2013-2014 Agricultural Policy and Outlook Conference Series MILC and Insurance: A Common Sense Dairy Safety Net Presented by Cameron S. Thraen

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Key Policy Points:

- The choice for a new dairy safety-net can be a win-win for all.
- Currently proposed Senate and House programs exhibit significant potential problems.
- Offering farmers a choice among an expanded Milk Income Loss Contract program and a limited Income Over Feed Cost margin insurance program would double the support of existing programs yet could cost 40-60% less than the current stand-alone margin insurance program.
- IOFC support capped at \$6.50 would allow farmers to receive market signals attributable to low IOFC margins. In response, though reductions in output, not whole herd liquidations as was the case in 2009, milk supply would naturally adjust to return margins to average levels.
- Farms would no longer have an incentive to opt-out of the margin insurance and would instead opt
 for the no-cost MILC program when margins appear favorable. This would allow all farms to
 participate in a government sponsored safety net program and may prevent ad-hoc disaster
 payments in the future.

A MILC and Honey Compromise

With both sides in the dairy policy debate set in their positions it is difficult to see a path to compromise. How can we offer a retooled dairy farm safety net that: (i) works for small and large-scale dairy farm managers; (ii) is fiscally responsible; (iii) does not mute market supply and demand signals; and (iv) does not require a market stabilization program? We propose a new policy alternative, one we decorously label "MILC and Honey". This program would accomplish all of these goals by increasing eligibility of MILC to 4 million pounds per year *and* allowing farms an option to choose annually between 1) MILC participation, or 2) a stand-alone margin insurance program as their elected safety net. Specifically our proposal is for a combined program we term MILC-Insurance. This program will provide for:

- Continuing to offer the MILC program and increase the MILC eligibility to 4 million pounds per fiscal/calendar year.
- Farms not wishing to participate in MILC would be able to purchase margin insurance from \$4.00-\$6.50 per cwt.
- The choice for either MILC or margin insurance can be made each fiscal or calendar year.

The MILC-Insurance program saves money relative to the stand-alone margin insurance program by capping insurance at \$6.00-\$6.50 per cwt. With the savings the revenue can be redirected to an expansion of the MILC program; effectively offering the best of both programs (counter-cyclical revenue support or catastrophic margin insurance). Farms would no longer have an incentive to opt-out of the margin insurance and would instead opt for the no-cost MILC program when anticipated margins are favorable. This would allow all farms, regardless of size or management style, to participate in a government sponsored safety net program. Such a program, which offers continuous support, may prevent ad-hoc disaster payments in the future.