Canadian BRM Programs

Policy Education Program

James Rude

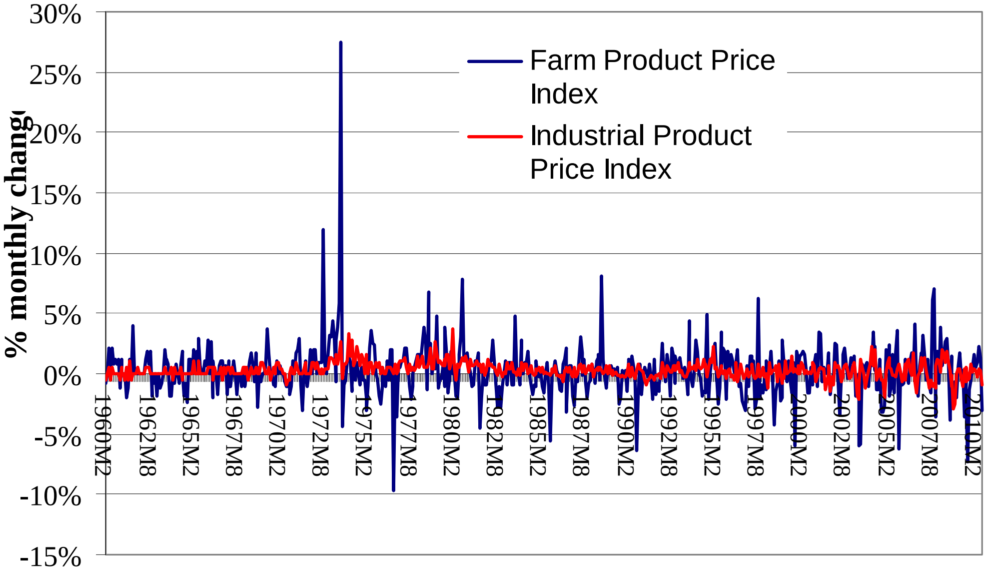
Canadian Agricultural Trade Policy Research Network

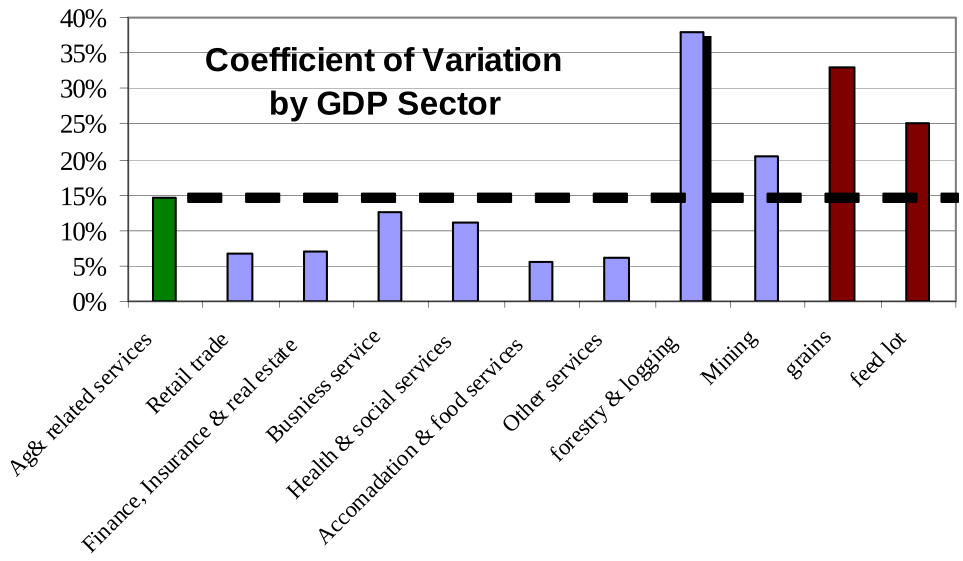
UNIVERSITY OF ALBERTA
EDMONTON, ALBERTA, CANADA

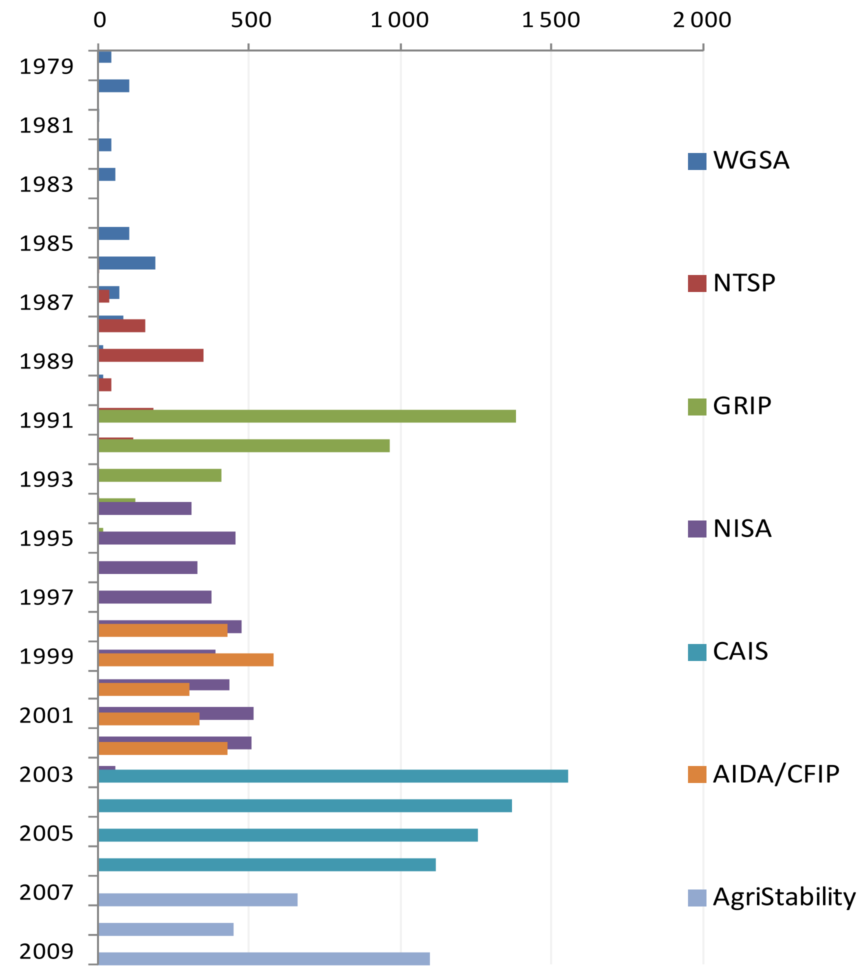
Salient Facts about BRM Intervention

- Reasons for government involvement in farm income stabilization range from calls for income redistribution to incomplete markets arguments
  - Safety nets redistribute income (cut off bottom of cycle not top and premiums are not actuarially sound)
  - Problem w.r.t. Tinbergen's Rule: two objectives but only one instrument
- Evolution of BRM policy has been driven by a number of pressures and constraints:
  - concerns about deficits and debt;
  - the pressures of international trade agreements;
  - and a desire not to mask the market signals or affect production decisions.
- Policy tool kit includes BRM Suite (AgriInvest, AgriStability, AgriInsurance & AgriRecovery), cash advances, & ad hoc programs
- Historic evolution from commodity specific to whole farm and from price/revenue to income support
  - Focus on policies that smooth farm income/not on government facilitation of market based risk instruments

How risky is the ag sector?







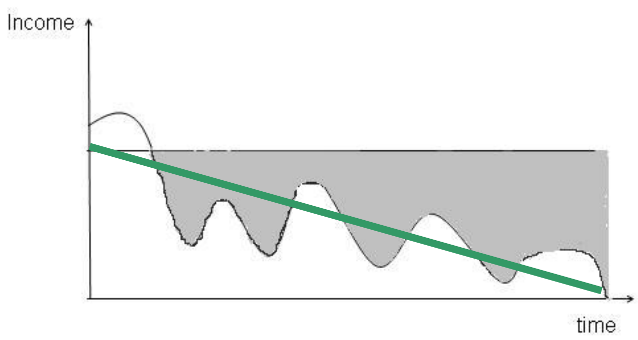
Source: OECD

How do you measure the performance of BRM Suite?

- What does performance mean? Smoothing short term fluctuations in income *or* does it mean dealing with chronically depressed incomes?
  - One instrument can't achieve multiple objectives
  - Complaints: regional concerns ⇔commodity specific issues ⇔farm size and structure
- Producer complaints have focused on
  - Complexity of the program
  - Slowness of the payouts
- They want something that is "predictable and bankable"
  - more to do with an *income transfer* than *income stabilization*

Performance Measurement: Risk Reduction

- Does CAIS/AgriStability reduce short term income variability?
  - Stochastic simulation for Manitoba grain farms (wheat, canola and oats) finds that CAIS reduces standard deviation by 32% (Janzen 2007)
  - Alberta and Saskatchewan results: 20%↓ crops, 17% ↓ livestock (Koekohoven 2008)
- Should margin programs address long-secular declines <u>or</u> should programs stabilize around a long run declining trend?



- Not financially viable
- Essentially an income transfer
- Doesn't transmit market signals and blunts incentives

Performance Measurement: Impact on Incentives

- How do producers access larger government payments?
  - Do producers alter outputs and inputs to access more program payments?
  - Do producers alter the product mix to access more program payments?
  - Do producers intentionally induce production margin losses to access more money?
- Does the program affect production decisions?
  - The program truncates the producer's probability distribution of production margin
    - Reduces the variance of returns
    - May increase expected unit returns for each enterprise/wealth effect
    - Together this creates an incentive to grow riskier crops (enterprises)
    - Also likely to encourage farmers to take more risks in other aspects such as taking on more financial risks

Performance Measurement: Production Effects

- Equilibrium displacement model of Canadian crops
  1) Impacts associated with distortion of resource allocation (differential treatment of eligible and non-eligible inputs)
  2) Impacts associated with wealth and insurance effects

- Percentage change in production due to CAIS/AgriStability

	Misallocation Effects	Wealth & Insurance Effects	Net Effect
Wheat	-2.24%	3.21%	0.97%
Coarse Grains	-2.04%	2.78%	0.74%
Oilseeds	-2.33%	3.75%	1.42%

- Impact on Transfer Efficiency

	CAIS	Fixed payment	Price support	Input Subsidy
$ received/$ transfer	.40	.48	.25	.17

* Source OECD (2002)

POLICY INSTRUMENTS: EXPERIENCE AND LESSONS FOR STABILIZATION POLICY

The evolution of Canadian stabilization policy must be seen in the context of five factors:

1) The growing influence of the provinces through federal-provincial consultations that led to pressure for programs that provided uniform support across Canada.
2) The changing structure of agriculture, in terms of larger economies of scale and farm output mix becoming more homogenous and specialized and therefore exposed to more risk.
3) The influence of the United States and its pursuit of countervail actions against Canada encouraged programs to withstand a U.S. challenge.
4) The trend of GATT and WTO agreements to eliminate support programs that were directly linked to production decisions made traditional Canadian policies difficult to maintain.
5) Traditional commodity support programs result in highly unstable demands for funding and central budget agencies were pressuring for more predictable outlays.

Source: Freshwater and Hedley (2004)

What does the future hold?

- Second best solutions are the norm, but require trade-offs between providing *acceptable* safety nets and *minimizing distortions*
- Rationale for providing government support remains vague
- Expect margin based whole farm program with any reform (concerns with trade remedies & with masking market signals)
- Direct payments more consistent with income transfers <u>but</u> don't expect them soon … and don't expect targeting
- Attention to timing of payouts but difficult to address w/o direct payments
  - trade-off between individualized margin and timeliness of payment
- So more of the same!