

Canadian BRM Programs

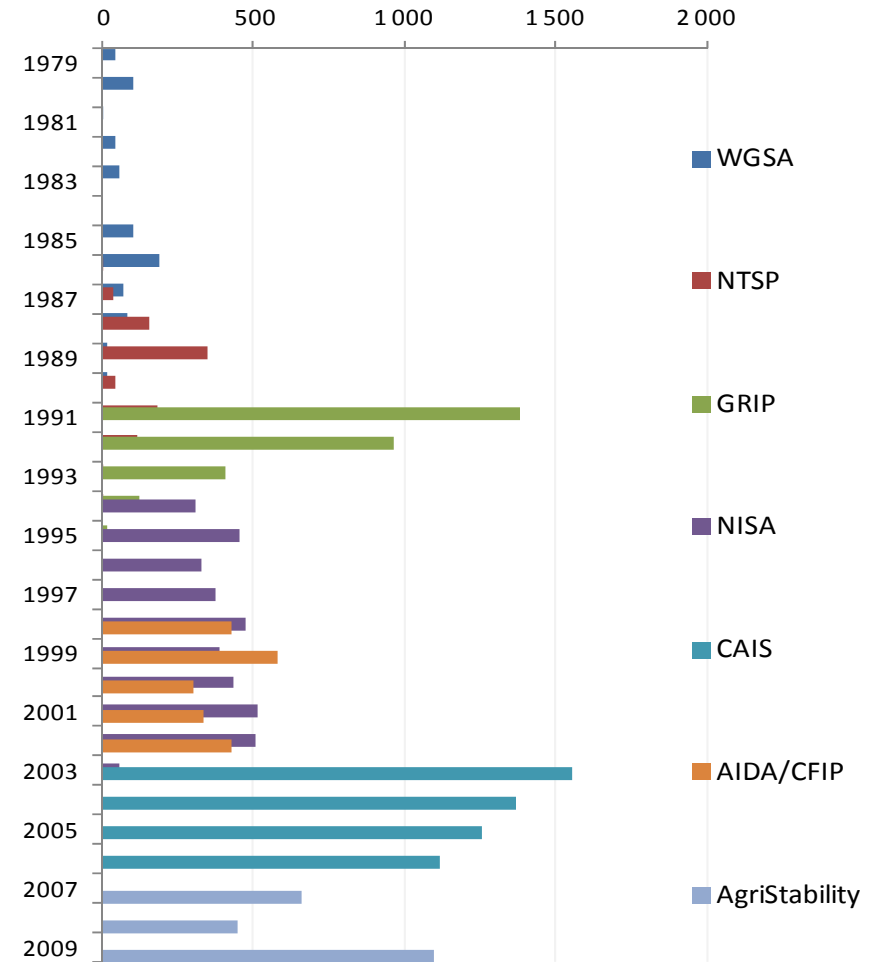
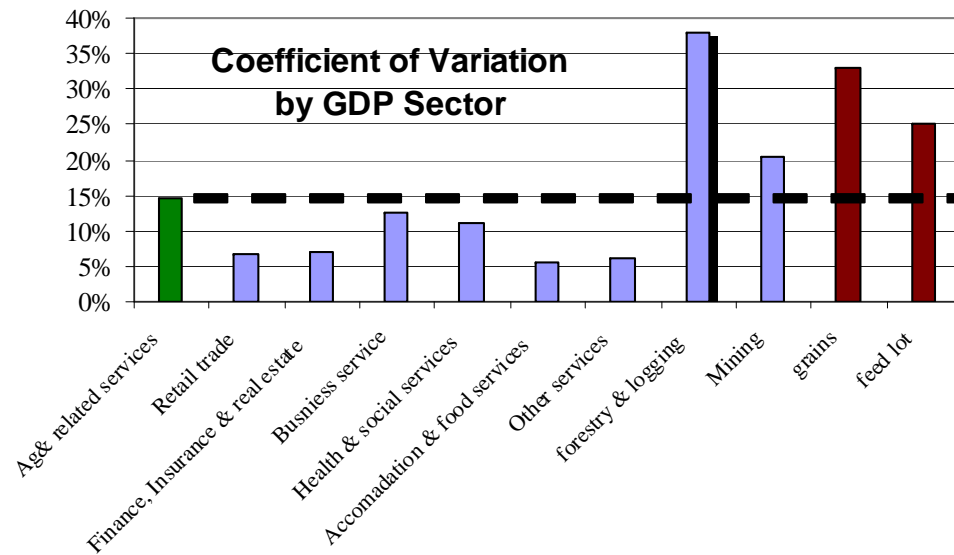
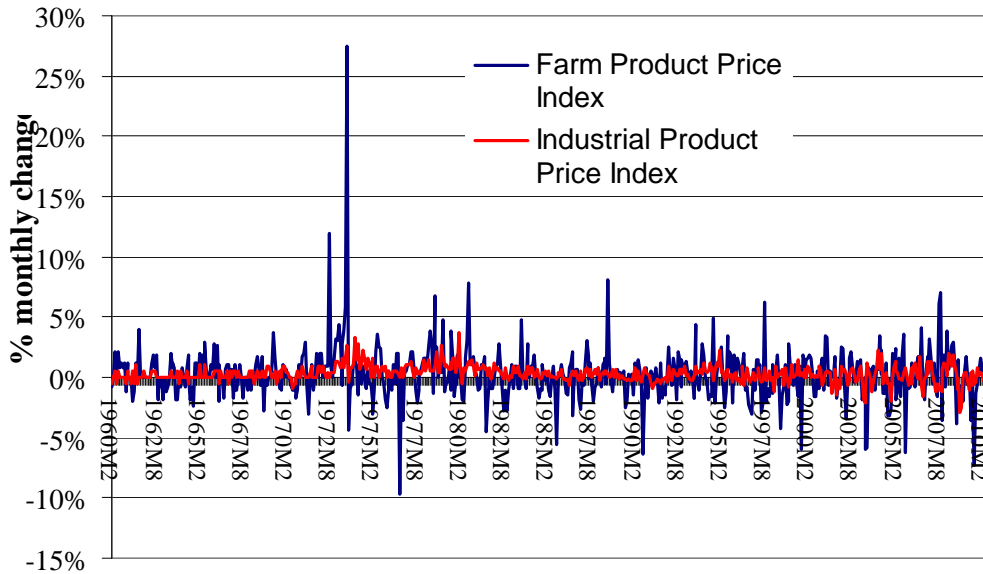
Policy Education Program

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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?



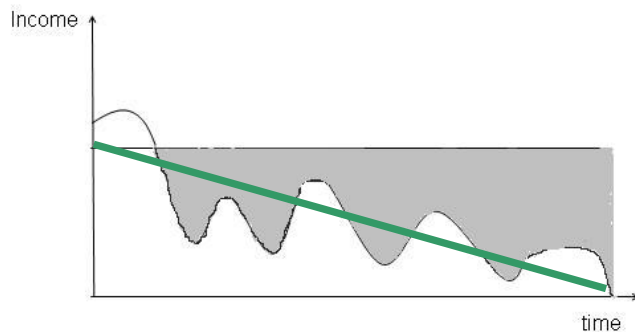
Source: OECD

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 \Leftrightarrow commodity specific issues \Leftrightarrow 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 (Koekhoven 2008)
- Should margin programs address long-secular declines or 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 but 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!