

# Disaster Assistance: How Best to Pay When Nature Has Her Way

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Over the past several months, Congress, the administration, and various farm groups have debated the type and size of an agricultural disaster assistance package. Drought has affected a large part of the country and could continue to do so in future months (see Map 1). The Senate attached an agricultural disaster assistance package to the Department of the Interior's appropriation bill. The House has not moved forward on any disaster package. The administration has stated that any disaster assistance must be paid for by budget offsets (that is, other programs must give up funding to pay for the disaster assistance package). The debate on a package for the current drought has centered on two questions: who will receive assistance, and how will it be paid for?

The administration and the House leadership have focused on budget offsets to pay for any disaster package. Many critics of agricultural disaster funding have pointed to the recent passage of the U.S. Food Security and Rural Investment Act, stating that any funding for agricultural disaster assistance should come from the \$70.5 billion appropriated for the new farm legislation. The Senate has followed the form of previous disaster packages by declaring these outlays emergency spending. This allows Congress to avoid budget offsets; it can simply increase the federal budget to account for the additional spending. In previous agricultural disasters, the federal government has provided various forms of assistance, from direct payments to feed assistance. Since 1988, there have been over fifteen emergency disaster aid packages, and these programs have provided over \$20 billion in agricultural support. The Senate package would provide over \$5 billion (\$3.8 billion for crops and \$1.2 billion for livestock) in support to producers who suffered production losses for the 2001 and 2002 marketing years. The administration has already provided some assistance to livestock producers through the Livestock Compensation Program. This program will provide up to \$752 million in direct payments to livestock producers that maintain their livestock in counties that have been declared disaster areas. Additional support has been given in feed assistance, emergency loans, conservation payments, and the authorization to allow emergency haying and grazing on Conservation Reserve Program land.

On the crop side, the administration is taking a "wait and see" approach. Many of the crops affected by the drought could have been covered by the federal crop insurance program. Nationwide, roughly 80 percent of the production of eligible crops is covered by some form of crop insurance. Recent changes in the crop insurance program have made it more popular with producers, and they are purchasing higher levels of coverage. The administration and House leadership are waiting to see how the crop insurance program performs during this disaster before proceeding with a disaster assistance package for crops.

The administration's concentration on livestock stems from a couple of factors. Federally subsidized insurance is not available to most live-

stock producers. Map 2 shows pasture conditions across the country. In three states (California, Colorado, and Nebraska), over 80 percent of the pasture is considered to be in poor or very poor condition. These three states account for roughly 15 percent of cattle in the United States. Eleven states have poor to very poor pasture conditions on over 60 to 80 percent of

**TABLE 1. JULY 1 ALL CATTLE AND CALVES INVENTORY**

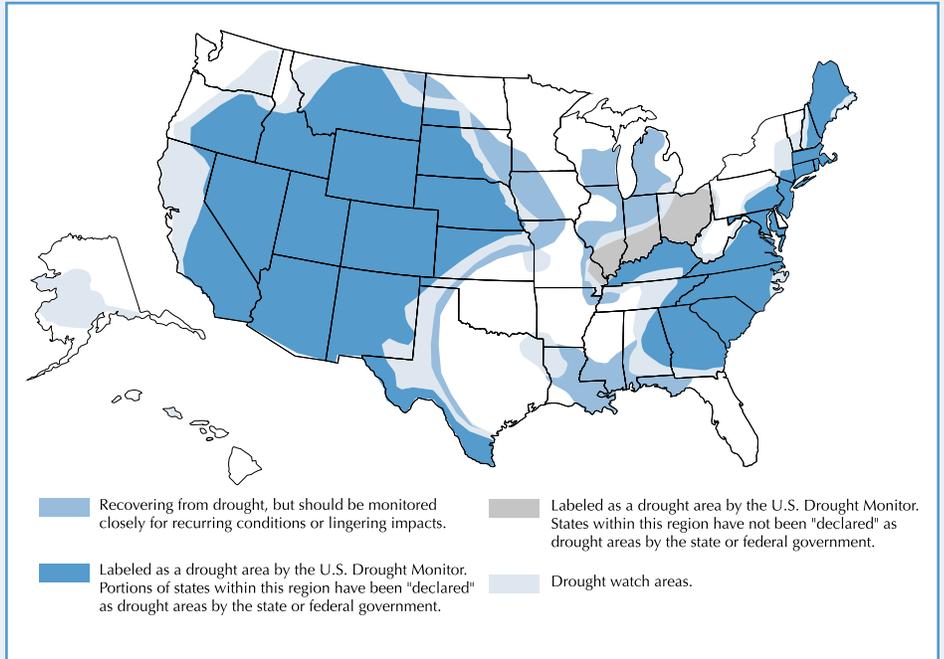
	2001 (million head)	2002 (million head)	2002 as % of 2001
California	5.20	5.20	100
Colorado	3.30	3.10	94
Kansas	6.90	6.55	95
Nebraska	7.25	7.05	97
South Dakota	5.10	5.00	98
United States	105.80	105.20	99

Source: From "Cattle," 7/19/2002, USDA-NASS.

their available pasture. Table 1 highlights cattle production in several of the drought-affected states. The last column of Table 1 shows the relative size of the herds between 2001 and 2002. Most of these states have seen overall cattle numbers shrink. Part of this cattle liquidation has been brought about because of limited feed availability resulting from the current drought.

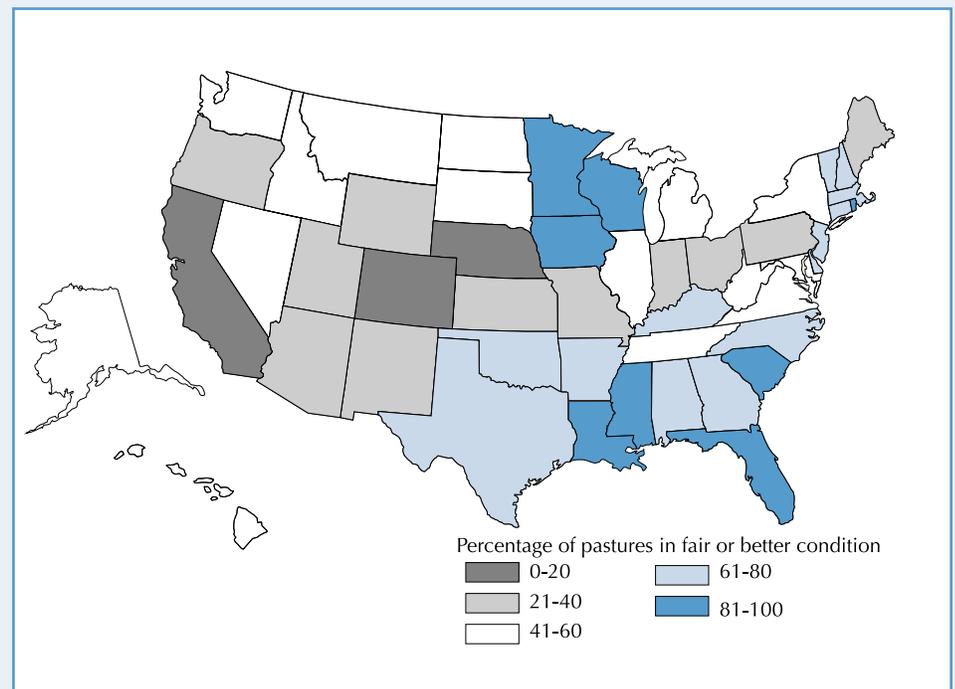
If disaster aid is once again extended to crop farmers who are eligible for crop insurance, the reasons for the existence of a crop insurance program are certainly called into question. After all, the federal government already underwrites the companies who sell crop insurance. Why not simply do away with crop insurance, pass annual disaster declarations, and save significant administrative costs? Alternatively, Congress could pass a farm bill that makes countercyclical payments with respect to crop yields in a county or crop reporting district. These payments would have lower administrative costs than crop insurance and would be significantly less prone to political meddling than are annual declarations. Giving farmers both disaster payments and crop insurance indemnities would seem to be difficult to justify in terms of either cost or equity to U.S. taxpayers. ♦

### MAP 1. DROUGHT INDICATOR



Source: National Drought Mitigation Center, <http://www.drought.unl.edu/risk/us/usimpacts.htm>.

### MAP 2. PASTURE CONDITIONS



Source: From "Crop Progress," 9/30/2002, USDA-NASS.