Adverse Gaming Incentives in Farm Safety Net Programs: Evidence from the Milk Income Loss Contract

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**Objective**

USDA Milk Income Loss Contract (MILC) compensates farmers when the Boston class milk price falls below a feed-adjusted target price of milk. With MILC the limit for benefits each fiscal year is capped at 2.985 million lbs. of milk; however, each FY a producer may elect the start month in which the farm is eligible to begin receiving benefits. For large farms the start month decision is critical in determining MILC performance since there is only one opportunity maximize returns. For these dairies MILC payment data was analyzed to determine the accuracy of start month decisions to provide insight into the propensity for dairy farmers to adversely game taxpayer-funded safety net programs.

**Definition:**

“ADVERSE GAMING”

1. Identifying almost certain losses and then buying insurance coverage for these losses.

**Data and Methodology**

MILC farm-level payment data was collected from USDA’s Farm Service Agency for 2009 to 2013 fiscal years. Approximately 1.3 million payments totaling $1.6 billion dollars were made to over 47K dairy farmers during this time period. Start month decisions were analyzed to determine accuracy among dairy farmers with more than 2.985 Mil Lbs. per month of milk deliveries.

**Results and Discussion**

**Market Forecast**

**Actual Enrollment**

**Conclusions**

1. By selecting start months which coincided with the highest expected MILC payment rates a large percentage of dairy farmers were able to maximize financial returns to participation.
2. Over $115 million dollars was paid to 1,243 dairy farm managers. An average of $92,980 per farm.
3. MILC participants may adversely game the program and oversign in face of imminent margin declines, and underinsure when expected margins are above historical averages.
4. Confirmation of strategic behavior in MILC indicates that farmers may adversely game the MPP program to maximize financial returns.