2014 Farm Bill: Designed with the belief that corn prices would remain above $4

What was expected to be the 2012 Farm Bill had an auspicious start in 2011 when the leadership of the House Agriculture Committee indicated their intent to complete work on the replacement for the 2008 Farm Bill a year early. As fall turned to early winter it was apparent that work on a farm bill was not going to be completed in 2011, despite the high prices and enthusiasm for the largesse of revenue insurance.

In February 2012, we wrote, "Will members of Congress be able to overcome their partisan division long enough to pass a farm bill this year or will they kick the can down the road leaving the task to the next Congress?" (http://tinyurl.com/y8kyw837). It was the latter.

By June, the Senate had adopted a farm bill that eliminated direct payments, counter-cyclical payments, and the average crop revenue election (ACRE) program. In place of these programs the Senate adopted the Supplemental Coverage Option (SCO) that was an add-on to crop revenue insurance that would, under some conditions, allow farmers to be paid all or part of the deductible of the revenue insurance policy. The legislation also cut $4.5 billion over 10 years from the SNAP (old food stamps) program.

The House Agriculture Committee passed a farm bill in July 2012, but it languished in the House itself as attention turned to the fall elections. On December 31, 2012 with no action on behalf of the House, Congress passed a one-year extension of the 2008 Farm Bill.

After the new Congress was sworn in in early January 2013, both chambers of Congress began work once again on the farm bill. In May, both the House and the Senate Ag Committees reported out their respective farm bills. The Senate adopted a farm bill in June which the House voted down. In place of the Senate bill, the House passed an ag-only bill in June and a nutrition bill in September. Both the agriculture and nutrition communities responded negatively to the split. Nothing happened by the end of the year.

In January, the House passed a farm bill conference report that included both agriculture and nutrition titles. The Senate did the same in February and the 2014 Farm Bill was signed by the President.

The 2014 Farm Bill eliminated the Direct Payment Program which provided farmers with a payment whether farm prices were high or low. There was little active opposition to the direct payments as long as prices were in the low to moderate range, but with corn futures exceeding $8.00 for a short period of time, the tolerance for these payments hit a limit. The farm bill also eliminated the Counter-Cyclical Payment program (CCP). The LDP program was not eliminated from the farm bill because most people never thought that county prices could get that low; in a few cases in the past year they have.

The 2014 Farm Bill was built with crop revenue insurance as its foundation. The assumption behind this, as with the 2008 Farm Bill, was the idea that farm prices were on a new plateau as a result of the ethanol boom and the contemporaneous increase in crop production costs. Farmers were told that the corn price would remain above $4.00 with the other crops following corn's lead. And, they believed it.

They were told that crop revenue insurance was a counter-cyclical program because Senator Pat Roberts, the father of the infamous 1996 Farm Bill, said so, a claim that he recently repeated in Dodge City, Kansas. An article in the High Plains Journal reports, "Roberts said crop insurance is a vital risk management tool for grain producers particularly when grain prices are low" (http://tinyurl.com/ybp9n2ub).

House Agriculture Committee Chair Frank Lucas and Ranking Member Collin Peterson did not believe that in 2012 (http://tinyurl.com/yaljbwnr) and we have never believed it. To make it clear, Crop Revenue Insurance is pro-cyclical. It provides the best protection when prices are high and little protection when prices are low because it uses current prices to determine the amount of coverage it provides. The lower the price, the lower the level of protection, plain and simple.

With crop revenue insurance as the foundation of the farm program, Congress gave farmers a choice on how they wanted to back up revenue insurance: Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC). Congress was asking farmers to gamble on which program would best protect them from risk over the next four years.

ARC provides the best payment over the life of the 2014 Farm Bill if prices remain above the cost of production, making payments in any year that per-acre, county-level revenue declines. The assumption behind this program was the same as crop revenue insurance: there was a price plateau. This, too, is not a counter-cyclical program because the level of protection declines as crop prices decline.

PLC is designed to provide farmers support when prices drop below the reference price for that crop. The program was made more attractive by setting a reference price that was significantly above the old target price of the CCP. This program is counter-cyclical because it pays more, the lower prices decline. But even so, an increased reference price has not been enough to protect all farmers during the current four-year period of steadily declining crop prices.

If we have a bumper crop (or even a trendline crop) and these are the policies we must rely on, things could look very bleak this fall and winter, with bankers refusing to renew operating loans for some farmers.

Policy Pennings Column 887

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 133, September 1, 2017

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.
Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.

Reproduction Permission Granted with:
1) Full attribution to Harwood D. Schaffer and Daryll E. Ray, Agricultural Policy Analysis Center, Knoxville, TN;
2) An email sent to hdschaffer@utk.edu indicating how often you intend on running the column and your total circulation. Also, please send one copy of the first issue with the column in it to Harwood Schaffer, Agricultural Policy Analysis Center, 1708 Capistrano Dr. Knoxville, TN 37922.