2018 FB is expected to be a redo of existing commodity programs: Will that work in an era of low prices?

During a recent teleconference, Chair of the House Agriculture Committee Michael Conaway said that debate on the farm bill would be pushed into early 2018 and the commodity title would be built on the existing programs: crop revenue insurance, Agricultural Risk Coverage (ARC), and Price Loss Coverage (PLC).

The monthly price received by US farmers for corn has been on a downward decline since it peaked in the middle of 2012 (see page 12 in following link for a graph of these data: http://tinyurl.com/y7nanas2). That USDA publication also includes graphs for other crops that show similar price patterns. If that downward price trend were to continue, even at a slower pace, how well would modifications of these three programs work?

Two of the three programs—crop revenue insurance and ARC—work whether prices are above or below the full national cost of production. From our perspective, we (the US public) have no business making price payments for programs like ARC and Revenue Insurance when the price is well above the cost of production and there is no disaster, which is what happened in the early years of 2014 Farm Bill.

Now that prices have dropped and may remain low for a string of years, would building legislation on existing crop revenue insurance, ARC, and PLC programs provide an adequate safety net over the life of the next farm bill? In particular, how would these programs perform during a period of generally declining prices when the initial price is already below the cost of production? That is the current situation in US crop agriculture.

Crop revenue insurance has a price component that is set at an announced price when the insurance is purchased. If the price declines by harvest time, the farmer gets the benefit of the price specified in the contract and receives a payment based on the difference between the harvest-time price and the crop insurance price times the USDA Risk Management Agency (RMA) yield for that farm. The farmer chooses the percentage of production to cover.

Farmers who have a total or partial crop loss, receive a payment based on the lost production. In this described case, revenue insurance keeps things from getting worse, but does nothing to increase total revenue above that expected when the insurance policy was purchased.

The farmer can purchase a harvest price option. In that case, if the harvest time price is higher than the announced price and the farm experiences a production decline the farmer receives a payment based on the higher price and the RMA yield. This allows the farmer to capture a higher price but is still often inadequate if the price remains below the cost of production.

Crop revenue insurance is not designed to provide stability in extended periods of low prices. A benefit of the program is that the payments are based on farm level yields and are paid shortly after a claim is made instead of at the end of the crop year.

The ARC-CO program makes a payment when there is a year-to-year decline in county per acre revenue for a given crop relative to the olympic average per acre revenue in the county for the previous 5 years (benchmark revenue). A payment is made on 85 percent of the acres on a farm in the ARC program.

Even when prices decline, farmers will not receive a payment if the price decline is offset by a proportional increase in yield. In addition, the payment is limited to 10 percent of the benchmark revenue so if the benchmark revenue is $800 per acre, then the ARC payment is limited to $80 per acre. And if prices trend lower, the benchmark revenue also trends lower, which provides farmers less and less actual and potential revenue protection until finally payments depend only on yield variation.

The PLC is a counter-cyclical program that only makes payments to farmers if the season-average price received by farmers falls below the reference price—what used to be called the target price. The payment is the product of 85 percent of the farm's base acres times the farm's FSA established yield times the difference between the reference price and the season-average price down to the current loan rate. The lower the price the greater the payment. In a long period of low prices, the PLC will provide higher payments than the ARC. If prices fall below the loan rate, farmers can also claim a Loan Deficiency Payment.

Farmers complain that the payments for ARC and PLC come at the end of the crop year instead of the beginning like revenue insurance. This leaves them incurring costs while the crop is being produced and having to wait a year to receive the revenue.

So, what are the possible changes that could be made to ARC and PLC? The farm bill could allow farmers to receive their ARC and PLC payments on a more timely basis. They could be given partial payments during the crop year based on the projected season-average price with an adjustment at the end of the crop year when the season-average price is known.

Congress could raise the reference price, but with the budgetary constraints lawmakers are under, it is hard to see how they could do this. The farm bill could be written to allow farmers to split their acres between ARC and PLC to reduce the risk farmers take when they are forced to choose one program over the other. Farmers could also be allowed to reallocate their farm base acres to more adequately reflect the current farm configuration.

From our perspective, there is a serious problem with all three of these programs. They incur massive costs while doing nothing to change the underlying cause of prices that are significantly below the full cost of production. We all know the underlying reason: Several years of exceptionally high prices brought millions of acres into crop production, which coupled with above trend-line yields, have resulted in excess production.

And a little extra production has a drastic effect on prices. In corn, for instance, an increase in year ending stocks by as few as 150 million bushels on 15 billion bushels of production (1 percent of production) can significantly reduce price. The price can decline even if the year ending stocks remain flat if the market expects an increase in ending stocks next year.

With these three programs, US citizens pay a lot of money to provide inadequate protection for something as essential as food while doing nothing to deal with the underlying problem. Farmers, consumers, and taxpayers deserve something better.

Policy Pennings Column 898

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 144, November 17, 2017

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