Farm program provisions should reduce income risk not contribute to it

The 2018 Farm Bill provides farmers with the ability to switch between the Agricultural Risk Coverage program at the county level (ARC-CO) and the Price Loss Coverage (PLC) program. Initially farmers are asked to choose the program they want for the 2019 and 2020 crop years. For the 2021, 2022, and 2023 crop years they can make the election annually. But before we turn to the 2019 crops that will be planted this spring, we would like to take a look at projected ARC and PLC payments for 2018 crops.

In an April 2, 2019 University of Illinois "farmdocdaily" article "Estimated 2018 ARC-CO Payments" by Schnitkey et al. (https://tinyurl.com/yytmobz8), the authors conclude that: "Most counties are not projected to receive ARC-CO payments in 2018." They provide a county level US map which shows some scattered counties outside the Eastern and Western Corn Belts that will likely receive payments. While the growing region for soybeans is slightly different, the story is the same; only soybean farmers in a few scattered counties will receive ARC-CO payments.

Art Barnaby, Kansas State University, in a March 29, 2019 article, "KSU Continues to Estimate No PLC Payments on Soybeans" (https://tinyurl.com/y4qafwga), writes that "estimated Marketing Year Average 2018/19 prices continues to show no Price Loss Coverage payments for soybeans or Agriculture Risk Coverage payments in counties with above 'average' soybean yields." He goes on the estimate that "PLC will pay 15 cents on corn [and] 73 cents on grain sorghum."

After years of declining prices that are below the full cost of production for a large number of farmers and crops, scattered payments for some crops in a few counties are insufficient to ameliorate the growing financial crisis in farm country.

So, what will things look like under the 2018 Farm Bill that begins with the 2019 crop marketing year? An article by Zulauf et. al. (https://tinyurl.com/yy2fyfjs) raises the question of fairness on the timing of the ARC/PLC election on the certainty farmers have in knowing the final marketing year price. The better they know the price, the easier the choice will be, allowing farmers to choose the program that maximizes their benefits.

We looked at ten-year crop projections and though they are useful for comparing the potential impact of various farm programs, they are of little help in providing farmers with guidance in selecting the appropriate supplemental farm payment program.

Our examination of the analysis of colleagues at Illinois and Kansas State convinces us once again of a comment we made when the 2014 Farm Bill first came out with the ARC and PLC programs and asked farmers to make a choice that would be in effect for 5 years: "Why are we asking farmers to gamble on the choice of a program that is intended to manage risk?" It seems like there's a contradiction in there, somewhere.

The 2018 Farm Bill improves the uncertainty somewhat by making the first election for just 2 years and the following three elections for one year each. But, the further the time of the election is from the end of the marketing year, the riskier the choice becomes. Why should farmers have to take a risk on a program that is supposed to manage risk, not multiply it.

So here is our suggestion. At the end of the marketing year, the USDA calculates the payments for each farm, for both programs and then the farmer can choose the one with the

higher payments. In this period of time, when the price is below the full cost of production and farmers are strapped for income, that makes sense to us.

In general, if the marketing year price is below the reference price, PLC will provide farmers with the largest payments. If the marketing year price ends up above the reference, ARC is the best option though not every farmer will receive payments, depending on the historic crop revenue pattern for the county in which they farm.

In addition, we would not provide any payments to farmers when the corn price is at or above 95 percent of the full cost of production (for all other crops the price would be set by the last ten-year weighted ratio of the season average price each crop to the season average price of corn).

This modification of the current program is designed to help protect farmers against low-price risk, not shovel out money when the price is above 95 percent of the full cost of production. For farmers with a crop failure, they could collect crop insurance with the price component based on 95 percent of the full cost of production or the price determined by the crop-to-corn price ratio. With the extended period of low prices that we are experiencing, we think these modifications to the 2019 Farm Bill are preferable to a) making farmers gamble on payment programs, b) increased farm foreclosures and farmer suicides, and c) the inevitability of emergency payments if there is not a sustained increase in the demand for crops.

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