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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Transition assistance: Is that just another way of saying "Freedom to Fail?"

We recently read an article indicating that ARC-CO's—the Agricultural Risk Coverage-County program in the 2014 Farm bill—primary role as a safety net program is to provide "transition assistance" so farmers have time to transition their farm operation to a more profitable activity or crop. That left us feeling a little like Jim Varney's Ernest P. Worrell character, "Whudduya mean, Vern? We ain't never heard that before."

We certainly have no recollection of any discussion of transition assistance at the time the program was designed and during the long lead up to the 2014 Farm Bill. And we'll bet that there are few farmers out there who were asked to support the program because it would provide them with transition assistance so they could leave farming or shift to another set of crops—assuming that some other set of crops required additional production.

We also never read anyone describe it as a transition assistance program when the decision tools were providing farmers with the information they needed to see which program ARC-CO or Price Loss Coverage (PLC) would provide them with the largest payments over the 5-year life of the farm bill. No one, to our best knowledge, said, "If you elect ARC-CO, you need to have a transition plan in place because if prices decline and remain there for an extended period of time, ARC-CO will provide bubkes" (Yiddish for goat droppings).

The truth is that it was not a part of the discussion because conventional wisdom at the time left most people convinced that corn prices had established a new plateau and would remain above the full cost of production or at least above $4.00 for the foreseeable future. It was designed as a program of protection for year-to-year price declines matching revenue insurances protection for in-season price declines at levels that were already pretty good.

When we raised the issue of protection for long periods where prices might be well below the variable cost-of-production, few listened. They said it wouldn't happen; there might be a year here and there with low prices, but high prices were ahead of us for as far as the eye could see.

Some farmers, primarily in the South and growing crops other than corn and soybeans, opposed the adoption of a farm bill in 2013 because they believed that ARC-CO and revenue insurance would provide them with little price protection for many of their crops which had not enjoyed the same high prices as corn and soybeans. PLC was then designed to bring them on board so a farm bill could get passed in 2014. PLC essentially provides protection based on historic yields and a reference price. PLC is a countercyclical program. If prices fall below the reference price, payments increase as prices decline.

While ARC-CO uses the PLC reference price as a minimum price to be used to calculate the 5-year Olympic average price in determining the per acre protection level—providing some small measure of support assistance—it provides ever smaller payment levels the lower the price falls and the smaller the year-to-year variability.

Like revenue insurance, ARC-CO is an upside down safety net: it provides "high" payments during generally prosperous times to compensate for brief periods of revenue short-falls but provides little to no help during extended periods of low prices. Since revenue insurance payments are not countercyclical at their core, they fail to deliver when they are needed the most.

Corn Belt farmers fought very hard for the ARC-CO program and if the prices remain below the reference price ($3.70 for corn) for a series of years, they could find they receive minimal, if any, payments.

The same thing is true for revenue insurance, the lower the price, the smaller the revenue that is being protected, even with increasing yields. Crop insurance is at its best when it comes to disasters that cut yields significantly. But because it is price-following, it is less useful as a safety net program when prices are below the cost of production when the policy is purchased and remain there at harvest time. The lower the price, the lower the level of revenue that is being protected.

In terms of the expectation that in times of low prices farmers would use the ARC-CO payments to quickly transition at least some of their total cropland out of crops, we need to look at history. There was little transition the last time we had low prices even though for a major producing state like Illinois, in at least one year, farm program payments were 200 percent of net farm income. Taking livestock income out of that equation suggests that farm program payments were even greater multiple of net farm income for those without livestock. The time before that, it took the establishment of the CRP and the taking of some 30 million acres out of production to get prices out of the doldrums.

For seven decades, Congress has had crop farmers' back. Even if the farm bill legislation proved inadequate to deal with price and income realities, Congress could be depended upon to make adjustments in the farm bill or take actions outside the farm bill to help farmers out. But that was the last 70-some years; things may be different this time around. Many of the policymakers currently in DC have long said or implied that they see no need for farm commod-

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ity programs period! A substantial number of other policymakers want to cut back on federal programs and will not vote to authorize additional spending or programs.

That leaves us worried, especially if spring planting goes well and we get timely rains during the summer.

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