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ARC-PLC Decision: Why It Differs from the ACRE-DCP Decision

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Overview

Both the recently passed 2014 farm bill and its predecessor, the 2008 farm bill, contained a choice between two types of crop safety net programs. While similarities exist between the two sets of choices in the two most recent farm bills, notable differences also exist. This post discusses both the similarities and the differences.

Decision Similarities

The Agricultural Risk Coverage (ARC) program in the 2014 farm bill is a modified version of the Average Crop Revenue Election (ACRE) program in the 2008 farm bill.

- Both ARC and ACRE establish revenue, not price, targets.

- The revenue target for both ARC and ACRE is based on multiplying an average of yields and U.S. crop year average prices. A five-year Olympic average is used for yields (removes high and low) of the five past years under ARC and ACRE. ARC uses a five-year average Olympic average for price while ACRE uses a two-year average. Thus, the revenue target moves with the market --- increasing when market revenue is increasing and decreasing when market revenue is decreasing.

- Both ARC and ACRE are shallow loss programs that cover only part of the revenue target: The coverage range is between 86% and 76% for ARC, compared with 90% to 67.5% (90% minus 25% times 90%) for ACRE.

The Price Loss Coverage (PLC) program in the 2014 farm bill is a modified version of the price countercyclical (PC) program in the 2008 farm bill.

- Both PLC and PC have target prices set by Congress for the length of the farm bill.
- Both PLC and PC make payments when the U.S. crop year average price is below the target price.
- Both PLC and PC make payments on historical base acres, although the distribution of base acres by crop may differ. The 2014 farm bill allows farms to update the distribution of base acres to reflect the average acres planted to individual crops for the 2009 through 2012 crop. Total base acres on the farm, however, are the same for both bills.

Both decisions are framed by a period of farm prosperity, but with widespread concern that the prosperity may end abruptly and badly for the farm sector.

Decision Differences

The 2008 farm bill reduced direct payment by 20% if a farm chose ACRE. Farms that elected ACRE were thus required to give up a known payment for an uncertain payment. The 2014 farm bill has no similar requirement since direct payments have been eliminated.

The 2008 farm bill had no floor on the ACRE price component. It could thus decline as low as the market price declined. In contrast, the 2014 farm bill has a floor exists for the ARC price component. The ARC price component can never be less than the PLC reference price, but it can be higher.

The 2008 farm bill used yield for the state in which the farm was located to determine the ACRE revenue target. The 2014 farm bill uses yield for the county in which the farm is located or the farm's yield itself to determine the ARC revenue target. ARC thus provides more protection against low yield (individual farm yields are more closely related to its county yield than its state yield).

The 2008 farm bill reduced a crop's loan rate by 30% for farms that elected ACRE. This reduction was a significant consideration for farms, especially large farms, which use nonrecourse loans to cash flow post-harvest expense payments or manage taxes. The 2014 farm bill has no similar provision, meaning farms electing ARC will have the same loan rates as farms electing PLC.

Under the 2008 farm bill, an asymmetric decision existed. Once a farm elected ACRE, the decision was irrevocable through the 2012 crop year. However, if ACRE was not elected, the decision could be revisited the next crop year. The net result was an incentive to not choose ACRE unless a payment by ACRE was highly likely. No similar asymmetric decision exists under the 2014 farm bill. Farms must choose between ARC and PLC for all crop years from 2014 through 2018. Once made, the ARC or PLC election is irrevocable for both programs through the 2018 crop year.

ACRE had to be elected for all covered crops on the farm. In contrast, ARC at the county level and PLC is elected by individual covered crop, unless ARC-Individual is selected, in which case the option applies to all crops. Thus, a farm may choose ARC for some covered crops on the farm and PLC for other covered crops on the farm.

Under the 2008 farm bill, the traditional direct and countercyclical program (DCP) was the default option. Thus, ACRE had to be elected. In other words, if a farm did not report a decision to the Farm Service Agency, it was deemed to have elected DCP. The 2014 farm bill does not contain a default program option. It does say that, if all producers on a farm do not have the same election, no payment is made for the 2014 crop year and the farm is defaulted to PLC for all covered crops for the 2015 through 2018 crop years.

ACRE's revenue target could not increase by more than 10% or decrease by more than 10% from the ACRE revenue target for the previous crop year. No cup and cap exist on the annual change in the ARC revenue target, although as noted above the ARC price component can never be less than the PLC reference price.

Summary Observations

- Both the 2008 and 2014 farm bills gave crop farms a choice between a revenue program whose target can move up and down with the market and a price program whose target is fixed for the farm bill.

- For a variety of reasons the decision between price and revenue programs is more balanced in the 2014 farm bill. Included among the reasons is that the election of the 2014 revenue program results in no difference in direct payments, a floor on the price component of the revenue target, use of county instead of state yield, and the same loan rate as the price program.

- The revenue program enhancements can be viewed as being paid for, at least in part, by a more narrow revenue coverage range.

- Farmers need to appreciate the differences between the 2008 farm bill revenue-price program decision and the 2014 farm bill revenue-price program decision and to adjust their decision making framework accordingly.

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