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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Updating ARC-CO and the Next Bill: Market and Policy Design Considerations

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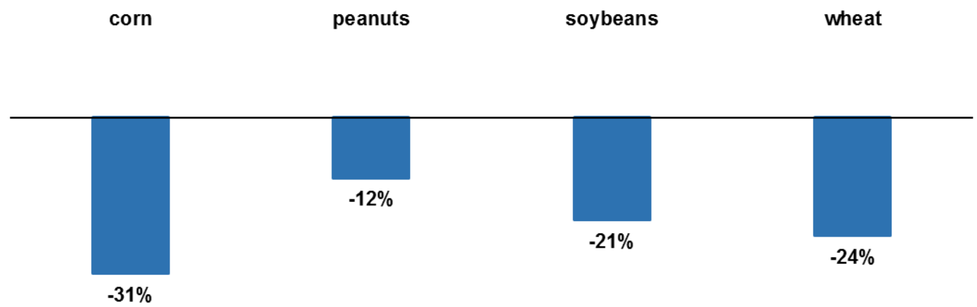
U.S. farm safety net policy is evolutionary (Zulauf and Orden). One evolutionary trait is updating reauthorized programs to reflect not only performance issues but also changes in markets, budget constraints, the political process, and policy objectives since the last farm bill. For example, target prices and loan rates have been routinely adjusted to reflect changes in market prices of both individual crops and all crops. This article examines the impact of the decline in market prices since 2012 on the design of the ARC-CO (Agriculture Risk Coverage – county) program.

Market - Policy Situation: (1) ARC-CO is a revenue based program, where a decline in revenue that triggers assistance is defined as county revenue less than 86% of benchmark market revenue based on the 5 prior crop years (ARC-CO is discussed further in data note 1). (2) When the 2014 farm bill was enacted, large market price declines were expected for many crops, including corn, soybeans, and wheat (see Figure 1). (3) However, prices are currently expected to remain relatively stable over the crop years associated with the next farm bill (see Figure 2).

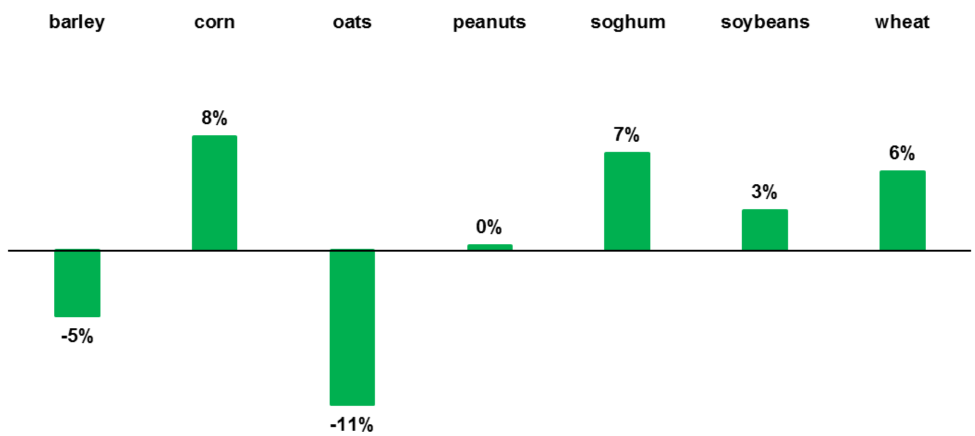
Impact on ARC-CO: Due to the change in market price behavior, ARC-CO is expected to pay less per base acre for most crops over the new farm period than it has paid over the 2014-2016 crop years (see Figure 3). Payment per base acre averages -37% less across the 6 crops in Figure 3, with corn, soybean, and wheat payments expected to decline -75%, -18%, and -58%, respectively. Payments are expected to increase only for barley. The forecasted payments for the 2019-2025 crop years, the expected time frame of the next farm bill, are from the June 2017 CBO (Congressional Budget Office) baseline.

Figure 1. Expected Price Decline: CBO April 2014 Baseline Prices for 2014-2016 Crops vs. CBO and NASS Reported Prices for 2011-2013 Crops, U.S.



Data for the 2012 and later crop years are from the April 2014 CBO baseline. Data for 2011 crop year are from *Quick Stats*, U.S. Department of Agriculture, National Agricultural Statistical Service. CBO also provided year-by-year forecasts of the price of U.S. rice in its April 2014 baseline. However, U.S. rice policy has largely separated into policy by type of rice, specifically long-grain, medium and short grain, and Japonica. Hence, it was decided not to include rice in this figure.

Figure 2. Expected Price Change: CBO June 2017 Baseline Prices for 2019-2025 Crops vs. NASS Reported Prices for 2014-2016 Crops, U.S.



Summary Observations

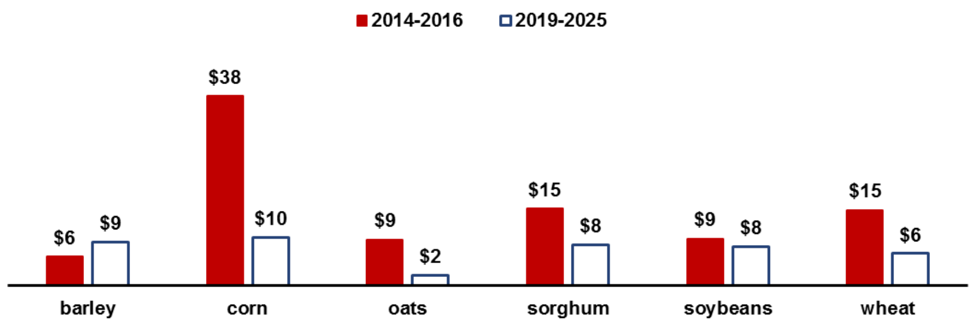
- ARC-CO was designed when prices for many crops were expected to trend lower over time.
- A multiyear downtrend in prices increases the likelihood of a 14% decline in revenue, thus triggering payment by ARC-CO. Payments by ARC-CO were nearly a given at the time the 2014 farm bill was enacted, at least for corn, soybeans, and wheat (see Figure 1).
- At present, more stable prices and revenues are expected, prompting the policy question of whether ARC-CO should be updated to reflect the change in market outlook.
- This policy question is consistent with an evolutionary trait of U.S. farm policy to adjust farm programs when market conditions change sufficiently.

- This policy question is also important because it is most common for prices and revenue to vary but not trend up and down. Thus, unlike when the 2014 farm bill was written, it is now possible to discuss how ARC-CO should be structured to maximize its contribution to the farm safety net under “more normal” market conditions.

- Expectation of no large downtrend in price / revenue points to a market environment with smaller variations in revenue. This observation in turn points to a policy option of raising ARC-CO’s coverage level above 86%, thus reducing the revenue decline that triggers payment. Other general types of policy options include ▬ (1) change ARC-CO’s 5-year calculation window so it more likely includes higher price years, such as 2011-2013 and (2) increase its 10% per acre payment cap (Paulson, Schnitkey, Zulauf, and Coppess discuss this option).

- Increasing ARC-CO’s payment per acre will likely increase the cost of commodity programs, but the increase is also likely to be limited as long as current expectation of notably higher per acre payments by Price Loss Coverage (PLC) than ARC-CO hold (see CBO, July 2017, and Coppess, Zulauf, Schnitkey, and Paulson). With low ARC-CO participation, outlays for ARC-CO will be limited—barring significant market price changes that differ from expectations. Thus, some budget latitude may exist for considering ARC-CO policy options.

Figure 3. Average Spending on ACR-CO Per Base Acre for Crop Years 2014-2016 vs. CBO Forecast for Crop Years 2019-2025, U.S.



(1) CBO’s June 2017 baseline assumes no peanut base acres will be enrolled in ARC-CO in crop years 2019 and later. Hence, no ARC-CO payment per base acre can be calculated. Thus, peanuts is not included in this figure.

(2) Covered commodities number 22, but payment data for the 2016 and thus 2014- 2016 crop years are currently available only for 10 of them: barley, canola, corn, lentils, oats, peanuts, dry peas, sorghum, soybeans, and wheat. To avoid double counting, payments to a program crop planted on generic base are removed from that crop’s payments before dividing by the crop’s base acres. Generic base is former cotton base acres as of the 2013 crop year. Cotton is not a program commodity under the 2014 farm bill, but generic base can receive a farm program payment if a covered commodity is planted on generic base acres.

Data Note:

(1) ARC-CO’s benchmark revenue is calculated using 5-year Olympic averages (high and low values removed) of U.S. crop year price and county yield. Payment thus is determined on a county-by-county, not national basis. Payment is made on 85% of base acres. Per acre payment is capped at 10% of benchmark revenue. A limit exists on the market orientation of ARC-CO. If average price for a crop year is at or below a crop’s reference price, the reference price replaces the crop year price in determining the 5-year Olympic average price in the revenue benchmark. Thus, the reference price is a floor on the price used to calculate the revenue benchmark. An individual farm version of ARC also exists, commonly designated ARC-IC. Participation in ARC-IC accounts for less than 1% of all U.S. base acres.

Data Source

Congressional Budget Office. “CBO’s April 2014 Baseline for Farm Programs.” April 14, 2014. https://www.cbo.gov/sites/default/files/recurringdata/51317-2014-04-usda.pdf

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