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Current Commodity Programs and Integrating with Crop Insurance

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In an earlier post, integration of farm commodity programs with crop insurance was discussed. There it was noted that crop insurance does not protect against multi-year price declines like those experienced in the mid-1980s and 1998-2002 time periods, and that commodity programs can play a role in providing protection during these multi-year price decline periods. In this post, the ability of current farm programs to provide multi-year price protection is examined. These programs include Direct Payments, Counter-cyclical program, Marketing Loan program, Average Crop Revenue Election (ACRE) program, and Supplemental Revenue Assistance Payments (SURE) program.

Direct payments

are fixed dollar amounts that are paid no matter the price or yield levels. Since these payments are constant across years, direct payments play little role in providing protection against multi-year price declines.

Counter-cyclical payments

are based on set trigger prices and loan rates. Market prices must fall below the trigger price, with payments based on fixed, historical bushels. For corn, the trigger price is $2.35 ($2.63 target price – .28 per bushel loan direct payment rate). For soybeans, the trigger price is $5.56 ($6.00 target price – .44 per bushel loan rate).This program could provide multi-year protection if target prices are raised to reflect higher commodity prices.

Marketing loan programs

provide payments when market prices fall below county-adjusted national loan rates. National loan rates are $1.95 per bushel for corn and $5.00 per bushel for soybeans. Similar to Counter-cyclical programs, Market Loan programs would provide multi-year protection if loan rates are raised to reflect higher commodity price levels.

Average Crop Revenue Election (ACRE) program

is a revenue program that makes crop-specific payments when 1) state revenue is below a benchmark, and 2) farm revenue is below a benchmark. The state benchmark is based on

1. The Olympic average of the last five-years of state yields, and
2. Two-year average of national season average prices

Another important feature of the state benchmark is that it cannot change more than 10 percent between years. State revenue that is compared against the benchmark equal the current year's yield time the current year's season average price. Because the ACRE guarantee includes historical prices and because the guarantee movement is limited between years, ACRE will provide multi-year protection.

Supplemental Revenue Assistance Payments (SURE)

is a whole-farm program. SURE's guarantee is based on the crop insurance prices of the current year. In addition, SURE requires 1) a 10 percent yield loss for one crop and 2) that the farm be in or adjacent to a county declared a disaster area or the farm has a 50 percent yield loss. SURE does not provide multi-year price protection because current year's prices are used in the guarantee and because of other requirements must be met to receive payments.

Of current programs, two possibilities exist for providing multi-year price protection:

1. A combination of Counter-Cyclical and marketing loan programs, or
2. ACRE

Much of the efforts of commodity groups is focused on ACRE-like program rather than counter-cyclical/marketing loan programs. This likely results because of the following problems with Counter-Cyclical/marketing loan programs: 1) there is difficulty in determining suitable target prices and loan rates, 2) target prices and loan rates are fixed and do not adjust to market conditions, 3) Federal outlays are difficult to control under counter-cyclical/marketing loan programs, and 4) low prices do not necessarily indicate revenue programs and farm financial stress as higher yields may be countering lower prices.

A prime example of an ACRE-like program under consideration for the next Farm Bill is the proposal by Brown, Thune, Durbin, and Lugar entitled the Aggregate Risk and Revenue Management (ARRM) program. This program modifies ACRE in important ways including 1) using an Olympic average of five years of revenue rather than a domination of historic yields and two historical prices, and 2) user of crop reporting district yields rather than state yields in it's guarantee calculation. Future legislative efforts may focus on programs such as this because of multiple-year price protection features.