



Perspectives on Commodity Program Choices Under the 2014 Farm Bill

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The U.S. Department of Agriculture, Farm Service Agency (USDA, FSA) recently released enrollment data on commodity program choices made under the 2014 Farm Bill. This article summarizes how farmers split program acres between Agricultural Risk Coverage – County Option (ARC-CO), ARC – Individual Option (ARC-IC), and Price Loss Coverage (PLC). Overall, ARC-CO was the overwhelming choice. ARC-CO was elected on 76% of program acres. PLC was next with 23% of acres, followed by ARC-IC with less than 1% of acres. There were differences in program choices across crops, as discussed below.

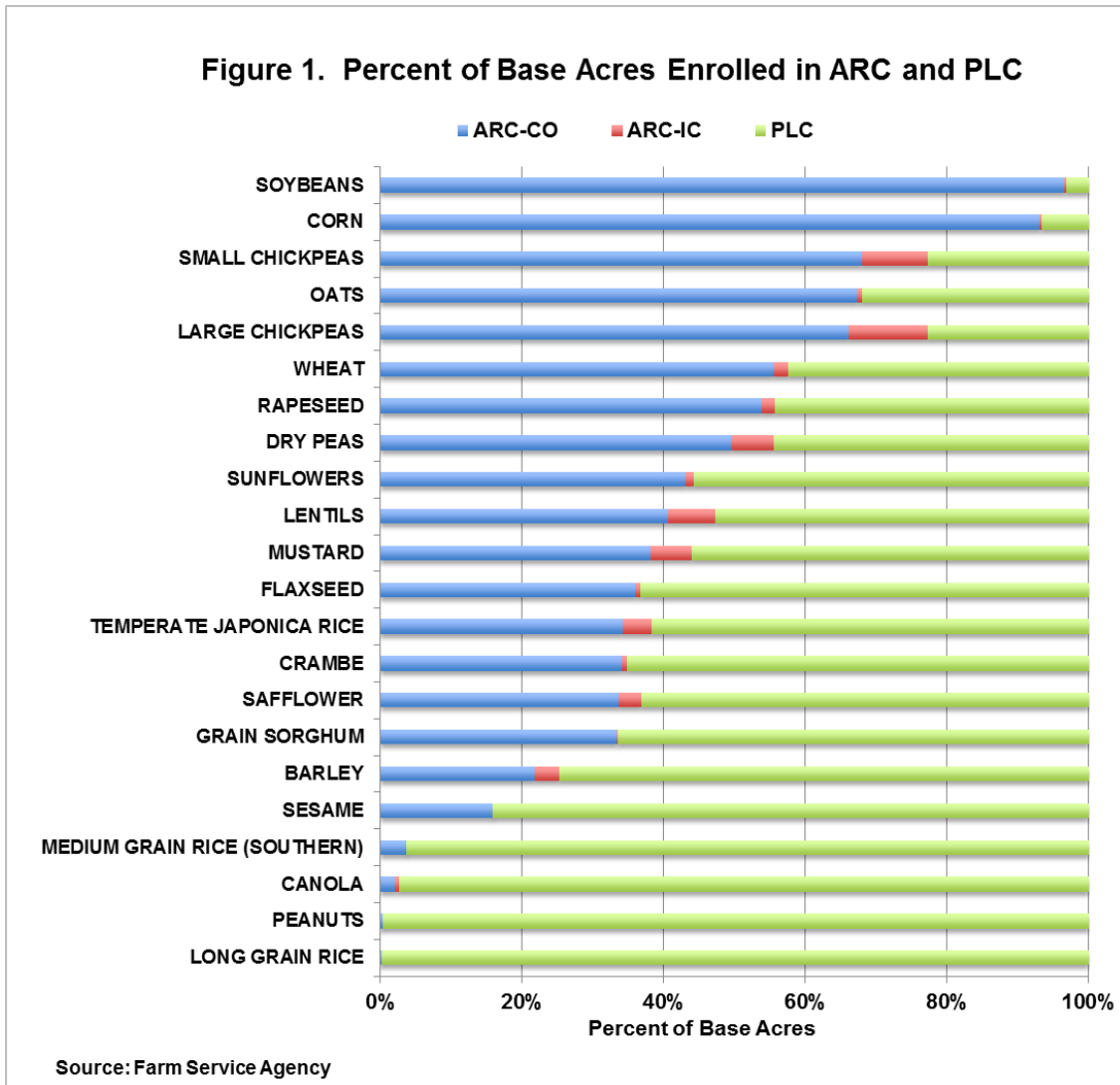
Program Choices

Farmers choose ARC-CO for 97% of soybean base acres and 94% for corn base acres (see Figure 1). Analysis indicated that expected payment from ARC-CO were larger than from PLC for both corn and soybeans (see [farmdoc daily January 27, 2015](#) for more detail), suggesting high use of ARC-CO. However, the fact that ARC-CO accounted for over 90% of program acres for both corn and soybeans is astonishing. The large share suggests:

1. Farmers did not split decisions between ARC-CO and PLC. One strategy was to choose ARC-CO on some farms and PLC on other farms, splitting protection between a revenue program whose guarantee will change over time and a target price program with a fixed reference price. Most farmers did not follow the strategy of splitting choices.
2. Farmers raising corn and soybeans placed little value on having the option to purchase Supplemental Coverage Option (SCO). SCO is a county-level crop insurance program that rides on top of individual plans. SCO is only available if PLC was chosen.

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- When making decisions, the default was PLC. Farmers had to make an active decision to sign up for ARC-CO. Most farmers raising corn and soybeans made an active decision to choose ARC-CO.
- The large percentages suggest that farmers raising corn and soybeans were comfortable with revenue-based programs. Some questioned this because ACRE – a revenue program available in the 2008 Farm Bill that preceded ARC-CO – was chosen by few farmers. The decision to use ARC-CO also mirrors crop insurance decisions made by corn and soybean farmers, where farmers overwhelmingly choose to use revenue insurances.



On corn, farmers used ACRE on 8.1% of base acres in 2013. Hence, revenue program use on corn increased from 8.1% in 2013 up to 94% after 2014 program choices. There are a number of reasons that could have caused this change:

- To enroll in ACRE, an individual had to give up 20% of direct payments and loan rates were reduced by 30%. Since direct payments were eliminated and loan rates were the same no matter the choice in the 2014 Farm Bill, this tradeoff did not exist for ARC-CO.
- ACRE was more complicated than ARC-CO, especially as ACRE required two triggers to be met before a farmer could receive payments.
- Farmers had to provide yields to FSA when enrolling in ACRE. This was not the case for ARC-CO.

4. Given the elimination of direct payments and the choices posed in the 2014 Farm Bill, farmers likely gave the choices more consideration in 2014.
5. Price expectations were different in 2014 than when ACRE decisions were made. There also are expectations for larger up front ARC-CO payments.

At the other end of the spectrum, near 100% of peanut and long grain rice base acres were enrolled in PLC (see Figure 1). These large percentages are not a surprise as studies suggested that PLC would make larger payments than ARC-CO for these crops (see [farmdoc daily January 27, 2015](#) for more detail). Reference prices for these crops are well above market-level prices, leading peanuts and rice farmers to overwhelmingly choose PLC.

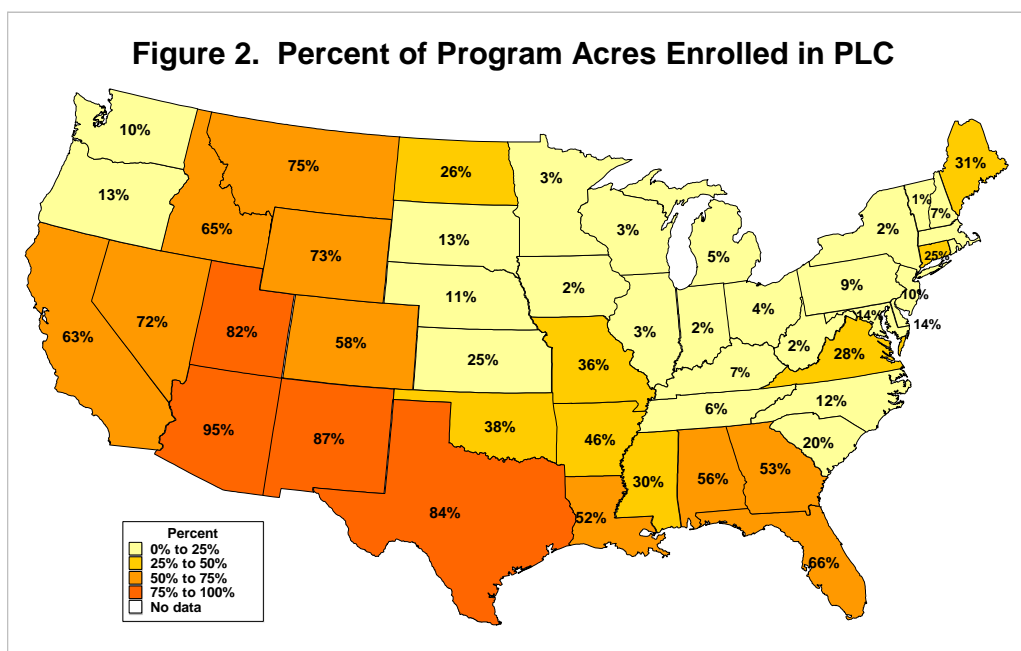
Perhaps the surprise in rice is the fact that ARC-CO was elected for a relatively high percentage of acres for Japonica rice. ARC-CO was selected on 34% of acres, ARC-IC was selected on 4%, and PLC for 62%. Note that yield and price dynamics are different for japonica rice than for long grain prices and Japonica's reference price was set at 115% of the long and medium grain reference price. Also, all Japonica rice base acres are located in California, and the drought situation may be playing a role in program choice.

Wheat choices were split relatively evenly between ARC and PLC (see Figure 1). ARC-CO was used on 56% of base cases, ARC-IC on 2%, and PLC on 42%. Studies of expected payments suggested that ARC-CO and PLC were near one another, potentially leading to the relatively even split.

ARC-IC was used on the fewest program acres. Crops having the most use of ARC-IC include large chickpeas (11% of base acres), small chickpeas (9%), lentils (7%), dry peas (6%), mustard (6%), temperate japonica rice (4%), barley (4%), and safflower (3%). There is a geographical dimension to where these crops are raised, with most of the states being located in the northwest. Oregon had the highest share of base acres enrolled in ARC-IC, with 12% of base acres enrolled in ARC-IC. Oregon was followed by Montana (9%), Washington (4%), Idaho (4%), Wyoming (2%), Minnesota (2%), South Dakota (2%), North Dakota (1%), and Colorado (1%).

Geographic Distribution

Overall there was a geographical pattern to program choice, as would be indicated by sign up by crop. Figure 2 shows states giving percentages of base acres enrolled in PLC. In general, PLC was used more in states in the south and west. Highest PLC use occurred in Arizona (95% of program acres), New Mexico (87%), Texas (84%), and Utah (82%). PLC use in Corn-Belt states were small. For example, PLC was used on 2% of program acres in Iowa, 3% in Illinois, and 2% in Indiana.



Summary

To a large extent, program choices followed predictions made prior to sign-up. Two facts, however, stand out. First, ARC-CO was the overwhelming program choice across program crops, particularly on corn and soybean acres. This suggests that farmers will use revenue-based programs, particularly those of relatively straight-forward design. The second was the relatively small use of ARC-IC. While ARC-IC has the desirable feature that it protects farm yields, ARC-IC also is a more complicated program relative to ARC-CO and PLC, combining all crops when determining payments and requiring farmers to report yields to be FSA. These complications may result in its unpopularity.

Reference

Schnitkey, G., J. Coppess, C. Zulauf, and N. Paulson. "[Expected Payments from ARC-CO and PLC.](#)" *farmdoc daily* (5):15, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 27, 2015.