

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

It's decision time!

As the deadline for selecting which commodity program to participate in through the end of the current farm bill, the general consensus seems to be that farmers in the Midwestern corn-soybean belt are strongly leaning toward the Agricultural Risk Coverage at the country level (ARC-CO) while Southern farmers are going the other way with a strong preference for Price Loss Coverage (PLC). If that is the way it turns out, it would be consistent with the dynamics that led to the creation of the two programs in the 2014 Farm Bill.

Farmers in the Midwest, who have consistent yields were interested in a program that would protect their revenue in the case of a one year drop in prices. Southern farmers on the other hand were concerned about protecting their income against crop failures and low prices. As a result, Congress came up with these two programs and left the choice up to individual farmers to make the selection.

As the sign-up deadline of March 31, 2014 gets closer, the question each farmer needs to ask is "What is the best choice for me and my farm?" It is possible that what your neighbors are doing is not necessarily best for you (or possibly even the best for them). The only way to make a reasonably informed choice is to take the time to sit down and run the numbers for your own operation.

To help farmers make this crucial decision, the United States Department of Agriculture (USDA) provided funds for two consortiums of universities, one headed-up by the University of Illinois in the Midwest and the other at Texas A&M in the South, to develop online farm program decision tools. The University of Illinois online program can be found at <http://tinyurl.com/lf2orv2> and <https://usda.afpc.tamu.edu/> is the link to the Texas A&M's decision aid. You may want to give both a spin to see what insights you can gain on the decision(s) you need to make.

At the outset, it seems to us that under the guise of a commodity program to help farmers manage risk, farmers are being asked to make the riskiest decision of all—what will the four-year price scenario look like?

If you have THE answer to that question, you are in the wrong business. You need to be a commodity trader on Wacker Drive in Chicago! But the truth is that you do have to make a decision and shoulder a

measure of "farm program risk" as well as the usual "cash receipts" risk.

To start with, we would caution you that just because one of the options provides a substantial payment for the 2014 crop that does not necessarily mean that that option is the best for the tenure of the farm bill—it may be, but it may not. It all comes down to prices.

Hence, our second piece of advice: don't necessarily rely on the baseline prices that have been provided by the Congressional Budget Office (CBO), the Food and Agricultural Policy Research Institute (FAPRI) or the USDA, unless one of these baselines actually represents what you think are reasonable price expectations over the life of the bill.

Overall, as you navigate the shoals of making the farm program choice for each farm and crop, we would encourage you to think about sets of prices that would cause dire problems for your farm operation in the years to come. Then use those prices in some of the scenarios you run with the decision-making tools. Those scenarios could provide useful information even if you believe that such prices are unlikely to occur.

You will want to look at each ASC farm number and crop separately. You can choose ARC-CO for one crop on a farm and PLC for other crops on that same farm. You can make different decisions for each ASC farm number you farm.

Ultimately, your choices will depend upon the crop production history of each farm you operate, your price expectations, and the type and level of risk you are able to tolerate.

It's time to do the work and finalize decisions. Your county Farm Service Agency staff will appreciate seeing you well in advance of the March 31 deadline. Coming in as early as possible will help reduce frustration all around.

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