

Agricultural Shallow Loss Programs Digging Deeper

September, 2017



Updated Farm Program baseline numbers from the Congressional Budget Office (CBO) confirm taxpayers are unlikely to harvest the \$16.6 billion in deficit reduction promised by backers of the Agricultural Act of 2014 (2014 Farm Bill).¹ In fact many programs created by the legislation are on pace to be more expensive than the programs they replaced. These cost overruns are due mainly to greater-than-promised spending on federal commodity programs that subsidize the incomes of agricultural businesses growing certain crops.

Agricultural Income Entitlement Programs

[The 2014 Farm Bill](#) created a number of programs to subsidize the incomes of agricultural businesses. These Title 1 commodity programs (named after the section of the farm bill that created them) create programs that subsidize the incomes of producers of everything from milk and sugar to cattle ranchers and growers of row crops such as corn, soybeans, wheat, cotton, and rice. [The two programs](#) covering the greatest number of farm businesses, and with the greatest expected costs, are Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC).



Businesses that choose ARC receive payments if revenue in a given year falls below a revenue guarantee (86% of the five-year Olympic average) calculated by the Farm Service Agency of the United States Department of Agriculture (USDA).² Businesses enrolled in PLC receive payments if prices for an individual crop in a given year dip below a [minimum price](#) established in the 2014 Farm Bill. ARC and PLC cover 21 specific crops listed in the Farm Bill.³ These programs were advertised as cheaper replacements for the discredited [direct payments program](#), which sent payments to agricultural businesses every year regardless of economic conditions. Both ARC and PLC are provided at no cost to farm businesses. Businesses electing to participate in ARC or PLC can also participate in the highly subsidized [federal crop insurance program](#).

¹ [Agricultural Act of 2014](#) (H.R. 2642; P.L. 113-79; 128 STAT. 649)

² P.L. 113-79 § 1117(c)(1)

³ P.L. 113-79 § 1111. Eligible commodities include: wheat, oats, and barley (including wheat, oats, and barley used for haying and grazing), corn, grain sorghum, long grain rice, medium grain rice, dry peas, pulse crops (lentils, small chickpeas, large chickpeas), soybeans, other oilseeds (sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe, sesame seed), and peanuts. Upland cotton is not eligible for ARC or PLC, but is subsidized through a separate Risk Management Agency (RMA) “shallow loss” program [the Stacked Income Protection Plan \(STAX\)](#).

Agricultural Income Entitlement Program Costs Are Out of Control

The ARC and PLC programs are vastly more expensive than advertised. In fact, cost projections for ARC and PLC come in higher every single year.

Comparing 10-Year Cost Projections for ARC and PLC (<i>\$ in billions</i>)				
Date of CBO Estimate	PLC	ARC	Total	Total Cost Compared to Original
At Farm Bill Adoption (February, 2014) ⁴	\$13.12	\$14.11	\$27.23	n/a
March, 2015 ⁵	\$20.19	\$14.89	\$35.08	129%
March, 2016 ⁶	\$19.49	\$23.13	\$42.62	157%
June, 2017 ⁷	\$24.62	\$20.78	\$45.39	167%

If these estimates hold true, the Agriculture Risk Coverage and Price Loss Coverage programs **will be 67% (\$18.2 billion) more expensive than originally estimated, totaling more than the projected savings from the 2014 farm bill.**

Projected 10-Year Savings at Farm Bill Passage	
<i>The Agricultural Act of 2014</i>	<i>Projected Impact on Deficits (Feb 2014)</i>
Title 1 - Commodity Programs	-\$14.3 billion
Title 2 - Conservation	-\$4 billion
Title 4 - Nutrition	-\$8 billion
All other Titles	+\$10 billion
Total	-\$16.6 billion

Actual Costs of ARC and PLC Exceed Even Revised Estimates

Payments under ARC and PLC are dependent upon USDA's calculation of actual prices and yields achieved in a given year. Because this information is only obtained after harvest, and the government's fiscal year starts on October 1st, payments under the program lag two fiscal years. For example, payments in fiscal year 2016 are for crops grown in 2014. Payments made thus far in 2017 are for crops grown in 2015. The costs of each program are greater than anticipated. For crops grown in 2014, the CBO calculates \$5.3 billion in payments. This is 41 percent more than originally expected. CBO estimates that payments in fiscal year 2017 will total \$8.1 billion, slightly exceeding the \$7.8 billion in payments USDA reports it has made through February 2,

⁴ CBO. [Cost Estimate of H.R. 2642, Agricultural Act of 2014](#). 28 January 2014.

⁵ CBO. [March 2015 Baseline for Farm Programs](#). 9 March 2015

⁶ CBO. [March 2016 Baseline for Farm Programs](#). 24 March 2016.

⁷ CBO. [June 2017 Baseline for Farm Programs](#). 29 June 2017.

2017.⁸ That \$8.1 billion, furthermore, is \$3.5 billion more than what would have been paid to farmers under the discredited direct payments program that these programs replaced.⁹ The president's 2018 budget request anticipates taxpayers will spend \$9.8 billion on these two programs in fiscal year 2018.¹⁰

Projected Cost of ARC/PLC by Fiscal Year <i>(\$ in billions)</i>			
Date of CBO Estimate	FY2016	FY2017	FY2018
At Farm Bill Passage (February, 2014) ¹¹	\$3.77	\$4.08	\$3.80
March 2016 ¹²	\$5.02	\$8.17	\$8.01
June 2017 (FY2016 is actual spending, not an estimate) ¹³	\$5.31	\$8.08	\$7.63

Conclusion

Taxpayers [can afford a safety net](#) to help agricultural producers protect themselves from perils that can't be managed. What the country cannot afford is lawmakers using accounting gimmicks and budget trickery to create programs that pay out in good times and bad and claim to save tax dollars while actually increasing costs. The Agriculture Committees need to go back to the drawing board and deliver the agricultural commodity programs savings they promised.



⁸ USDA – Farm Service Agency. [2015 ARC/PLC Payments](#) as of February 2, 2017.

⁹ Ibid, Note 4; Table 4

¹⁰ USDA. [FY 2018 Budget Summary](#). p. 14

¹¹ Ibid, Note 4

¹² Ibid, Note 6

¹³ Ibid, Note 7