



## Reference Prices in the Farm Bill<sup>1</sup>

When it comes to quinquennial discussions about renewing the Farm Bill, one hotly contested topic is the debate over reference prices.

Reference prices act as a price support that the United States Department of Agriculture (USDA) offers, consisting of a Farm Bill price floor for certain agricultural products.<sup>2</sup> Reference prices determine when direct payments to farmers are triggered under the Price Loss Coverage (PLC) program.<sup>3</sup> When market prices for covered commodities fall below a certain level (a reference price), PLC payments are sent to farmers to make up the difference.<sup>4</sup> Increasing reference prices would more readily trigger PLC payments.<sup>5</sup>

Supporters of increasing reference prices cite increased input prices (costs baked into producing crops, such as fertilizer or pesticides) and inflation, while opponents claim reference prices are unequally distributed among farmers, are relatively ineffective, and cause growers of certain crops to compete against each other in a quest for higher prices.<sup>6</sup>

### BACKGROUND AND CHALLENGES

Price supports (such as the supports that now constitute PLC payments) have played an important role in American history. Implemented in the 1930s, they were intended to offer consistent income and help farmers avoid bank foreclosure during the Great

#### QUICK SUMMARY

- Reference prices are a price support that trigger direct payments to farmers under the Price Loss Coverage (PLC) program.
- Supporters of increased prices cite rising input costs and inequity in coverage as a need for an increase.
- Detractors cite income inequality, budget constraints, inflationary pressures, and inequity among covered crops as a reason for their opposition.

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<sup>1</sup> This Issue Brief was written by Johnathan D. Hershey (J.D. 2025, Widener University Commonwealth Law School), with guidance and review by Prof. Sarah Everhart (Widener University Delaware Law School) and Emma Scott (Harvard Law School Food Law & Policy Clinic).

<sup>2</sup> Daniel A. Sumner, *Agricultural Subsidy Programs*, ECONLIB (2023) <https://www.econlib.org/library/Enc/AgriculturalSubsidyPrograms.html>.

<sup>3</sup> *Title I: Crop Commodity Program Provisions*, U.S. DEP'T OF AGRIC., ECON. RSCH. SERV. (February 7, 2023), <https://www.ers.usda.gov/topics/farm-economy/farm-commodity-policy/title-i-crop-commodity-program-provisions/>.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> Chuck Abbot, *Reference Prices are the Farm Bill Mystery and Roadblock*, SUCCESSFUL FARMING (February 5, 2024), <https://www.agriculture.com/reference-prices-are-the-farm-bill-mystery-and-roadblock-8558731>.

Depression.<sup>7</sup> Over time, these price floors coupled with limited supply management have offered somewhat consistent income for farmers.<sup>8</sup>

Rather than paying the farmer directly for his or her product, the Farm Bill authorizes some price support programs that farmers may voluntarily opt-in to, such as the USDA's Farm Service Agency (FSA)'s offering of different types of price floors including the Agriculture Risk Coverage (ARC) program and the Price Loss Coverage (PLC) program.<sup>9</sup> ARC provides income support in the form of extra payments when crop revenue declines below a guaranteed level that is regional- or producer-specific, while PLC provides extra payments when the effective market price for a covered commodity falls below the current effective reference price.<sup>10</sup> In short, the reference price debate applies only to those farmers who are signed up for the PLC program.<sup>11</sup> Whether a farmer signs up for ARC or PLC often depends on local circumstances, producer preferences, and market trends.<sup>12</sup> ARC and PLC coverage cannot be combined for the same commodity and the federal government sets a deadline for when a farmer must elect in which program he or she chooses to enroll.<sup>13</sup>

There are 22 commodities that are covered by the ARC and PLC programs, including crops traditionally thought of as cash crops in the United States such as corn, soybeans, and wheat.<sup>14</sup> The 2018 Farm Bill allowed for "upward fluctuation" in PLC reference prices when market prices increase over the reference price, allowing for farmers to better respond to market conditions and adjust their coverage options.<sup>15</sup> However, many commodity prices stayed the same over the course of the current Farm Bill.<sup>16</sup>

## THE ARGUMENT FOR RAISING REFERENCE PRICES

Many farm-industry affiliated groups would like to increase reference prices, citing "a reference price increase for all Title I commodities" as a top priority for the upcoming

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<sup>7</sup> Bruce Johnson, *Agricultural Price Supports*, UNIV. OF NEB. ENCYCLOPEDIA OF THE GREAT PLAINS (2011), <http://plainshumanities.unl.edu/encyclopedia/doc/egp.ag.007>.

<sup>8</sup> *Id.*

<sup>9</sup> *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC)*, U.S. DEP'T OF AGRIC., FARM SERV. AGENCY [https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/FactSheets/2022/fsa\\_arc\\_plc\\_factsheet\\_101922.pdf](https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/FactSheets/2022/fsa_arc_plc_factsheet_101922.pdf).

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *ARC/PLC Program*, U.S. DEP'T OF AGRIC., FARM SERV. AGENCY [https://www.fsa.usda.gov/programs-and-services/arcplc\\_program/index](https://www.fsa.usda.gov/programs-and-services/arcplc_program/index).

<sup>13</sup> Stephanie Rosch, *Farm Bill Primer: PLC and ARC Farm Support Programs*, CONG. RSCH. SERV. (May 16, 2022) <https://crsreports.congress.gov/product/pdf/IF/IF12114>.

<sup>14</sup> Other crops covered include barley, two different varieties of chickpeas, dry peas, grain sorghum, lentils, oats, canola, crambe, flaxseed, mustard, rapeseed, safflower, sesame seed, sunflower, peanuts, three different varieties of rice, and seed cotton. *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC)*, U.S. DEP'T OF AGRIC., FARM SERV. AGENCY [https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/FactSheets/2022/fsa\\_arc\\_plc\\_factsheet\\_101922.pdf](https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/FactSheets/2022/fsa_arc_plc_factsheet_101922.pdf).

<sup>15</sup> *Id.*

<sup>16</sup> *2018 Price Loss (PLC) Coverage Payment Rates Based on Statutory Reference Prices*, U.S. DEP'T OF AGRIC., FARM SERV. AGENCY [https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/arc-plc/pdf/2018\\_PLC.pdf](https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/arc-plc/pdf/2018_PLC.pdf); *Projected 2023 Price Loss (PLC) Coverage Payment Rates Based on Effective Reference Prices*, U.S. DEP'T OF AGRIC., FARM SERV. AGENCY [https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/arc-plc/2023/pdfs/2023\\_plc.pdf](https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdfiles/arc-plc/2023/pdfs/2023_plc.pdf).



Farm Bill.<sup>17</sup> Many groups cite the rising cost of production, including rising costs in necessary inputs such as fertilizer, pesticides, and herbicides, as a reason for asking for the increase.<sup>18</sup> Individual commodity interest groups have followed suit; recently, the American Soybean Association said that they believe the soybean reference price is “too low” and that not enough acreage in the United States qualifies for PLC payments.<sup>19</sup>

Many agriculture industry-adjacent groups note other needs for increasing reference prices beyond a rallying cry to support farmers. Some of the needs relate to the need for equity among commodities and among federal programs: one study cites a “mixed bag of support” in which support payments trigger frequently for some commodities while other commodities see little to no support due to high market prices.<sup>20</sup> From 2014 to 2022, soybeans saw zero payments while peanuts saw payments 100% of the time, despite over 2 million base acres qualifying for PLC payments being planted in soybeans.<sup>21</sup> Lack of support payments disincentivize farmers to sign up for PLC in the first place and they often opt for ARC or some other type of coverage instead.<sup>22</sup> In the soybean example, only 14% of producers signed up for PLC while the other 86% signed up for one of the ARC options.<sup>23</sup> Meanwhile, average market prices for soybeans continued to trend above the reference price despite the trade war with China negatively affecting farm incomes.<sup>24</sup> As a result, farmers received no payment for soybeans despite increased costs and a downward pressure on prices.<sup>25</sup>

## ARGUMENTS AGAINST RAISING REFERENCE PRICES

Criticisms of reference prices, voiced from various points along the political spectrum, include inequity in the distribution of these price supports, relative ineffectiveness and potential expense of increasing the price supports, inflationary pressures, and inequity among the level of support that certain commodity groups may receive over others.<sup>26</sup>

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<sup>17</sup> *Farm Bureau National Policies 2023*, Am. Farm Bureau Fed'n (shared by KANSAS FARM BUREAU at <https://www.kfb.org/WebsitePageFile/file/b87bf2eb-657b-49ef-877c-5484afd233d0/AFBF-Policy-Book-2023-FINAL-PDF.pdf>).

<sup>18</sup> *Pinpointing Policy: Reference Prices will be Increasing, but is it Enough?* KANSAS FARM BUREAU (October 9, 2023) <https://www.kfb.org/Article/Pinpointing-Policy-Reference-Prices-Will-be-Increasing-But-is-it-Enough>.

<sup>19</sup> *Ep. 32 – Agriculture Industry Authorities: The Commodity Classic Executive Round Table*, NAT'L CORN GROWERS' ASS'N (April 13, 2022) <https://www.ncga.com/stay-informed/media/in-the-news/article/2022/04/ep-32-agriculture-industry-authorities-the-commodity-classic-executive-round-table>.

<sup>20</sup> Jonathan LaPorte, *How Much Should PLC Reference Prices be Raised? – Part One*, MICHIGAN STATE UNIV. EXTENSION (August 29, 2023) <https://www.canr.msu.edu/news/how-much-should-plc-reference-prices-be-raised-part-one>.

<sup>21</sup> Gary Schnitkey, Nick Paulson, Jim Baltz, & Carl Zulauf, *PLC and ARC-CO for Soybeans: Payments and Perspectives*, UNIV. OF ILLINOIS DEP'T OF AGRIC. AND CONSUMER ECON. (April 25, 2023) <https://farmdocdaily.illinois.edu/2023/04/plc-and-arc-co-for-soybeans-payments-and-perspectives.html>.

<sup>22</sup> Laporte, *supra* note 20.

<sup>23</sup> Schnitkey et. al., *supra* note 21.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> Abbot, *supra* note 6.

Notwithstanding the inequity among types of commodities, the payments are also distributed in an unfair way among those who receive them. Since reference price payments are linked to total production, only 10% of farmers enrolled in the PLC program received over 80% of payments in 2021.<sup>27</sup> Further, raising reference prices may only benefit less than 0.3% of the roughly two million farms in the United States.<sup>28</sup> And the farms that stand to benefit may benefit immensely: in the same 2021 data, nearly 1,000 farms received \$125,000 in PLC payments and one farm receiving PLC payments collected over \$1 million in total commodity subsidies.<sup>29</sup> Zooming out to consider all agricultural subsidies and not just PLC and ARC, the trend persists with the largest 10% of farms receiving 56.4% of all crop insurance and direct payment subsidies.<sup>30</sup> This inequity in distribution could be exacerbated by increased reference prices at a time when 2022 was a record year for farm income.<sup>31</sup>

Increasing reference prices could be too expensive to be effective. Even without increasing reference prices, it is estimated that over \$33 billion will be allocated to PLC payments over the next ten years (and this number would increase with increased price supports).<sup>32</sup> Even if reference prices were increased 10% or over the cost of production (which would be more than 10%), many farmers enrolled in PLC coverage would not see a benefit over the life of the next Farm Bill.<sup>33</sup> Further, many crops enrolled in PLC coverage would not see annual boosts.<sup>34</sup>

The cost of increasing PLC payments is important to consider not only because of its impact on the federal deficit, but because the Farm Bill is subject to budget constraints: often, increases to one Farm Bill title must be offset by cuts to another.<sup>35</sup> Increases in a Farm Bill's cost is judged against a baseline (equal to the current amount of spending projected forward) whereby, if spending goes over the baseline, the entire bill could be subject to additional budget constraints or spending rules.<sup>36</sup> The Farm Bill debate over Title I commodity price supports (including PLC) is further complicated by the debate over whether conservation funding from the Inflation Reduction Act should be wrapped into the conservation funding baseline for the upcoming farm bill.<sup>37</sup>

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<sup>27</sup> Scott Faber & Jared Hayes, *Calls to Increase Crop Reference Prices Would Help Fewer than 6,000 Farmers*, ENV'T WORKING GRP. (September 5, 2023) <https://www.ewg.org/news-insights/news/2023/09/calls-increase-crop-reference-prices-would-help-fewer-6000-farmers>.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> Eric J. Belasco & Vincent H. Smith, *Who Receives Crop Insurance Subsidy Benefits?*, AM. ENTER. INST. (September 7, 2022) <https://www.aei.org/research-products/report/who-receives-crop-insurance-subsidy-benefits/>.

<sup>31</sup> *2024 Farm Sector Income Forecast*, U.S. DEP'T OF AGRIC. ECON. RSCH. SERV. (February 7 2024) <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>.

<sup>32</sup> *USDA Farm Programs*, CONG. BUDGET OFF. (May 2023) [https://www.cbo.gov/system/files?file=2023-05/51317-2023-05-usda\\_0.pdf](https://www.cbo.gov/system/files?file=2023-05/51317-2023-05-usda_0.pdf).

<sup>33</sup> Laporte, *supra* note 20; Jonathan LaPorte, *How Much Should PLC Reference Prices be Raised? – Part Two*, MICHIGAN STATE UNIV. EXTENSION (August 29, 2023) <https://www.canr.msu.edu/news/how-much-should-plc-reference-prices-be-raised-part-two>.

<sup>34</sup> *Id.*

<sup>35</sup> JIM MONKE, CONG. RSCH. SERV. FARM BILL PRIMER: BUDGET DYNAMICS (2023), <https://crsreports.congress.gov/product/pdf/IF/IF12233>.

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*



A final cost consideration consists of a potential increase's impact on inflationary pressures. Recently, six Republican members of Congress wrote a letter to the House Agriculture Committee leadership in opposition to increased reference prices because additional spending on agricultural subsidy programs could cause increased inflation.<sup>38</sup> Monetary hawks may have a point: some economists believe that as price supports become more "predictable and expected," landlords respond by increasing rent prices for agricultural land.<sup>39</sup> Cotton is an instructive crop when considering inflationary pressures: when cotton was removed from PLC and ARC coverage in the 2014 Farm Bill due to a trade dispute, rent prices for acreage used to grow cotton plummeted while other commodities stayed consistent.<sup>40</sup> When cotton was reintroduced to ARC and PLC coverage in 2018, rents went back to increasing at a rate similar to pre-2014 levels.

Finally, opponents point to an inequity among the covered commodities. Increasing price guarantees have disproportionately benefitted peanut, cotton, and rice farmers while limiting the benefit to those who grow corn and soybeans.<sup>41</sup> These crops are primarily grown in Southern states, meaning that PLC outlays will primarily flow to Southern farmers and not commodity farmers in other regions.<sup>42</sup>

## CONCLUSION: THE FATE OF REFERENCE PRICES IN THE NEXT FARM BILL

Senate Agriculture Chairwoman Debbie Stabenow (D-MI) has indicated that she is "open" to increasing reference prices, provided that Congress agrees to her priorities such as increases to nutrition line items or climate funding.<sup>43</sup> Despite the letter of opposition he received from colleagues in his own party, House Agriculture Chairman Glenn "GT" Thompson (R-PA) has noted that reference prices are "out of sync" with current market prices and that farmers would like to see them increased.<sup>44</sup> At the same time, he also acknowledges the budgetary pressures that raising reference prices would entail.<sup>45</sup> U.S. Secretary of Agriculture Tom Vilsack, a Democrat, notes that while agriculture issues are often bipartisan, "adjustments to reference prices" are

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<sup>38</sup> C.J. Miller, *Six US House Republicans Voice 'Strong Opposition' to Raising Reference Prices in Next Farm Bill*, HOOSIER AG TODAY (January 23, 2024) <https://www.hoosieragtoday.com/2024/01/23/six-house-republicans-strong-opposition-raising-reference-prices-farm-bill/>.

<sup>39</sup> Jonathan Coppess & Jared Hutchins, *Farm Bill 2023: Is There Bad Medicine in Base Acres and Reference Prices?*, UNIV. OF ILLINOIS DEP'T OF AGRIC. AND CONSUMER ECON. (August 31, 2023) <https://farmdocdaily.illinois.edu/2023/08/farm-bill-2023-is-there-bad-medicine-in-base-acres-and-reference-prices.html>.

<sup>40</sup> *Id.*

<sup>41</sup> Scott Faber & Jared Hayes, *Increasing Price Guarantees Primarily Benefits Southern States, Analysis Shows*, ENV'T WORKING GRP. (July 13, 2023) <https://www.ewg.org/news-insights/news/2023/07/increasing-price-guarantees-primarily-benefits-southern-states-analysis>.

<sup>42</sup> *Id.*

<sup>43</sup> Chuck Abbot, *Stabenow Open to Reference Price Proposals, A Farm Bill Obstacle*, SUCCESSFUL FARMING (January 19, 2024) <https://www.agriculture.com/stabenow-open-to-reference-price-proposals-a-farm-bill-obstacle-8536163>.

<sup>44</sup> *Thompson Wants Farm Bill Floor Time Scheduled Before Releasing Draft*, THE FENCE POST (August 1, 2023) <https://www.thefencepost.com/news/thompson-wants-farm-bill-floor-time-scheduled-before-releasing-draft/>.

<sup>45</sup> *Id.*

slowing down current Farm Bill negotiations.<sup>46</sup> Bipartisan agreement and opposition on both sides seems to boil down to parochial issues such as what crops are grown in a member of Congress's backyard and with which interest groups they frequently interact. The final product will probably look something like the results of past Farm Bills – a bipartisan negotiation that includes wins for both sides, while leaving no side fully satisfied.

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<sup>46</sup> Josh Cotton, *Rep. Glenn Thompson Talks Ag Policy with Sec. Vilsack*, THE TIMES OBSERVER (September 19, 2023) <https://www.timesobserver.com/news/local-news/2023/09/rep-glenn-thompson-talks-ag-policy-with-sec-vilsack/>.