

FARM POLICY BRIEF

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The Price of ACRE

The Average Crop Revenue Election (ACRE) program, created in the 2008 farm bill, provides producers with another option as a replacement for counter-cyclical payments.

ACRE marks a historic departure from most commodity programs in that payments are triggered by shortfalls in revenue. In fact, ACRE incorporates a double-trigger. Not only must a farm experience a shortfall in its revenue guarantee to qualify for a payment, the state where the farm is located must also experience a shortfall in its revenue guarantee.

The revenue guarantees mentioned above are known as farm- and state-level benchmark revenues, respectively, and equal the product of publicly-reported national prices and farm- and state-level yields. Actual state revenue must be less than 90 percent of the state benchmark revenue to trigger a payment at the state level, and actual farm revenue must be less than the farm benchmark revenue to trigger a payment at the farm level.

The preceding paragraphs discuss only the main features of ACRE. For additional details on the program interested readers should consult information from USDA, such as the website: <http://www.ers.usda.gov/Briefing/FarmPolicy/ACRE.htm>.

Clearly, the discussion thus far indicates the complexity of the ACRE program, a feature Woolverton and Young (2009) discuss in their analysis of the factors affecting participation in ACRE in 2009.

Those who observe commodity programs know that participation in ACRE to date has been relatively low. Woolverton and Young report that as of December 2009 only 8 percent of farms and only 13 percent of base acres are enrolled in ACRE. Furthermore, participation did not appreciably increase as a result of 2010 sign-ups.

The “cost” of enrolling in ACRE also likely affects participation. In order to enroll in ACRE, a producer must forego counter-cyclical payments, 30 percent of the marketing loan rate, and 20 percent of the direct payment rate. Given market prices for most major commodities in recent years, most producers would not likely have received counter-cyclical payments or loan deficiency payments the previous two years. However, direct payments are independent of market prices, and can represent a substantial sum that is known in advance with certainty. Moreover, enrollment in ACRE is an irreversible decision for the life of the 2008 farm bill, which does not expire until 2012.

With these program attributes in mind, figure 1 depicts the average value of 20 percent of all direct payments received in a county. This analysis is based on a county-level summary of direct payment yields and payment acres for corn, cotton, peanuts, rice, grain sorghum, soybeans, and wheat. The total direct payments in a county are weighted by the total payment acres in the county to get the per acre values. Clearly, regional differences emerge in this map. In fact, the counties in the darkest shade of red—over \$5 per base acre—are found in cotton and rice

production areas. These two crops, along with peanuts, have some of the highest direct payment values per base acre. For example, 20 percent of the value of direct payments across crops for a base acre in Bolivar County, Mississippi, equals \$7.42; in contrast, the same value in Roosevelt County, Montana, is \$1.90. Given the size and certainty of these payments producers and landlords in areas with relatively high direct payments per acre are likely to weigh giving up 20 percent of these certain payments to receive an ACRE payment that may or may not trigger, depending on market prices.

Sign-up for ACRE to date appears to reflect this situation. Only six states have more than 20 percent of eligible base acres enrolled in ACRE, and none of these states reflect major cotton, rice, or peanut production. Of the six states, the southernmost state is Oklahoma, and over 90 percent of its base acres enrolled in ACRE in 2009 were wheat base acres. In fact, no southeastern or western state has more than 5 percent of eligible base acres enrolled in ACRE.

As long as producers must relinquish a portion of fixed direct payments to be eligible for an uncertain ACRE payment, participation in the ACRE program will likely remain low, especially in the South and West.

References

Woolverton, A., and E. Young. Factors Influencing ACRE Program Enrollment. U.S. Department of Agriculture, Economic Research Service Economic Research Report No. ERR-84. December 2009.

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<http://www.ers.usda.gov/Publications/ERR84/>.

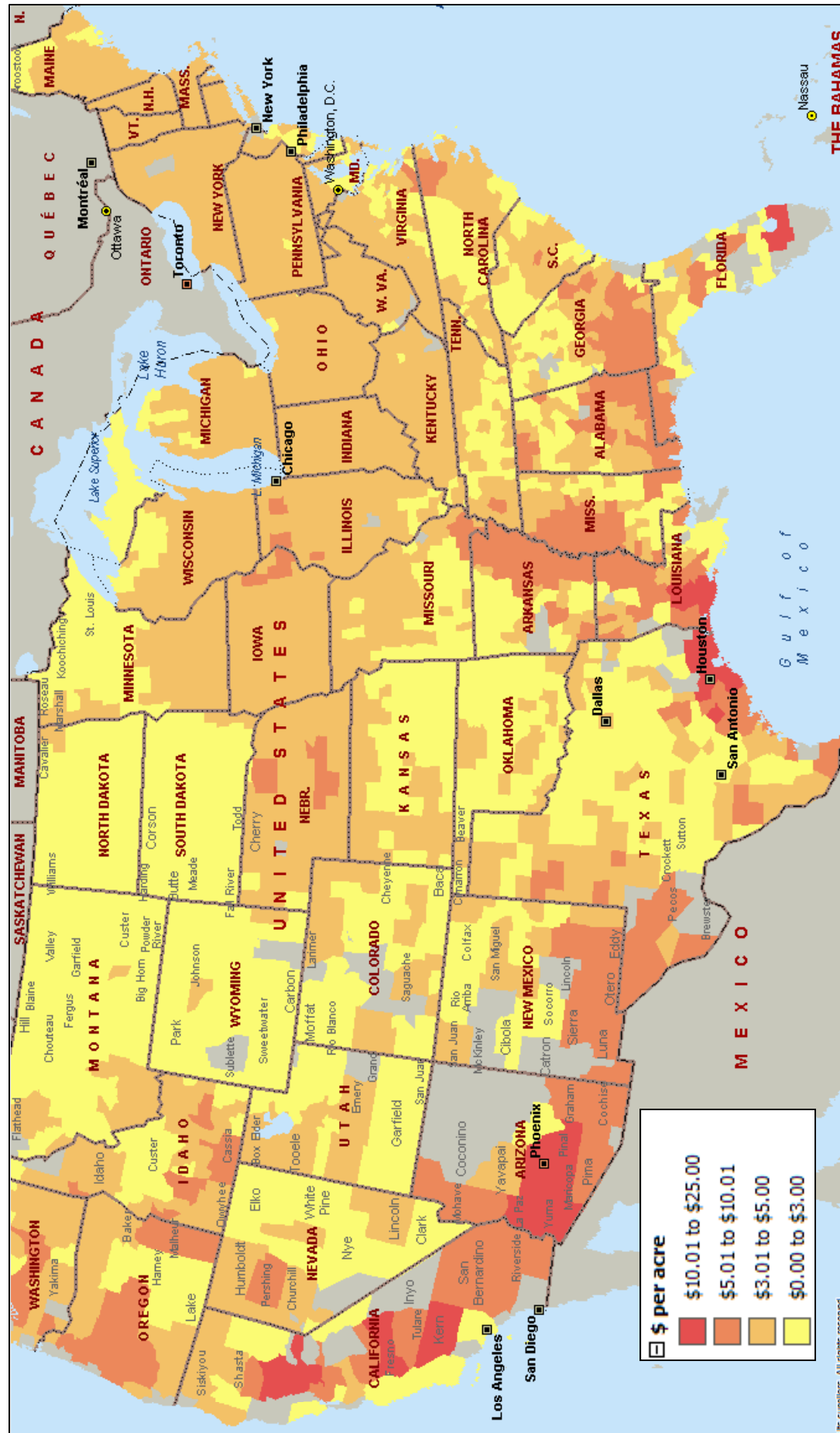


Figure 1. Average value of 20 percent of direct payments by county, weighted by payment acres.

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