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Regional Implications of a County-Based ACRE Program

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As the deficit reduction debate rages on in Washington, the likelihood that fixed direct payments will be reduced or completely eliminated in the next Farm Bill continues to increase. However, potential changes to other farm safety net programs are less clear. The fact that farmers receive payments even during periods of high farm profits tends to be the strongest and most consistent criticism of the fixed direct payment program. This implied desire to reduce the inefficiency of the agricultural safety net can help to guide additional changes to Commodity Title programs which could help reduce farm program costs while providing more timely support.

One option which has been discussed, and is being supported in the Midwest, is a revenue support program based on a county-level revenue measure. This could potentially take the form of a modification to the existing ACRE program which is currently based on state-level revenues. Conceptually, a county-level program would provide better farm-level revenue risk protection as county revenues would typically better represent farm-level experience compared to more aggregate revenue indexes. However, a county-level program would also be more costly due to potentially higher administration costs and payment levels.

A recent Center for Agricultural and Rural Development study estimates that all acres planted to program crops could be covered by a county-level ACRE program at a 95% coverage level (Babcock, 2010). Midwestern organizations such as the Iowa Farm Bureau have indicated a willingness to reduce or eliminate direct payments if the savings could be used to fund such a county revenue program. However, interest in such a change to commodity programs is not supported outside of the Midwest – even within other state level Farm Bureau organizations.

In an attempt to better understand these regional differences, expected ACRE program costs were calculated based on an historical analysis. NASS state and county corn yields and marketing year average prices from 1972 to 2009 were used to calculate the historical experience of various program designs had they been available from 1977 to 2009. The current state-level program with a 90% revenue guarantee was compared to a county-level program with 90%, 85%, and 80% revenue guarantees. Table 1 reports the expected payment levels and frequency with which payments would be expected to occur for each program design for corn acres.

For the Corn Belt states of Illinois, Indiana, and Iowa, shifting to a county-level program at a 90%

coverage level would increase expected support and similar to slightly higher payment frequencies. Even lowering the guarantee level to 85% or 80% would result in similar expected levels of support as under the current state-level program. For states outside of the Midwest the results tend to be different. Moving to a county-level program would generate much smaller increases in expected support (e.g., Alabama and Virginia) and even result in smaller expected payments in some cases (e.g., Mississippi and West Virginia).

Thus, the gains of moving towards a lower level of aggregation would seem to be concentrated in the Midwest while the costs, if such a change were funded by direct payment savings, would be borne across all regions. These types of regional differences make it extremely difficult for agricultural organizations to develop policy designs with wide-ranging, unified support.

Table 1. Expected ACRE Payment Levels (Frequencies) for Corn Acres in Selected States

	State-Level	County-Level		
	90% Guarantee	90% Guarantee	85% Guarantee	80% Guarantee
Illinois	$16.26 (26%)	$26.58 (25%)	$20.81 (21%)	$15.30 (17%)
Indiana	$15.40 (21%)	$22.81 (25%)	$17.36 (20%)	$12.49 (16%)
Iowa	$12.55 (18%)	$24.96 (24%)	$19.72 (20%)	$14.93 (16%)
Alabama	$12.55 (21%)	$14.71 (19%)	$12.88 (16%)	$11.12 (16%)
Mississippi	$8.86 (08%)	$6.98 (11%)	$5.56 (09%)	$4.75 (06%)
Virginia	$24.47 (31%)	$26.19 (33%)	$23.76 (30%)	$21.23 (28%)
West Virginia	$21.28 (21%)	$18.81 (30%)	$16.42 (27%)	$13.99 (22%)

References

Babcock, B.A. 2010. "Costs and Benefits of Moving to a County ACRE Program." CARD Policy Brief 10-PB 2. Center for Agricultural and Rural Development, Iowa State University, Ames, IA. http://www.card.iastate.edu/publications/dbs/pdffiles/10pb2.pdf