

## **Analyzing Farmer Participation Intentions and Enrollment Rates for the Average Crop Revenue Election (ACRE) Program**

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### *Executive Summary*

The 2008 Farm Bill created the Average Crop Revenue Election (ACRE) program as a new commodity support program. We analyze actual county-level ACRE enrollment rates and a mail survey of farmers just before the ACRE sign-up deadline in Mississippi, North Carolina, Texas and Wisconsin. As discussions begin regarding the next Farm Bill, an understanding of the factors affecting ACRE participation can provide guidance as program changes are discussed.

Our empirical analysis of the survey suggest that initial farmer plans to switch to ACRE in 2009 were driven by producer perceptions of whether or not ACRE would pay more than existing programs and whether or not it would provide more risk protection. On the other hand, planning to stay with existing programs in 2009 and possibly switching to ACRE later was driven more by producer risk aversion and perceptions about the effect of yield and price variability on income risk in the coming years. Membership in organizations such as National Farmers Union, National Farmers Organization, and the Grange was consistently and strongly associated with intending to stay with existing programs in 2009. Consistent state and crop effects were also found. Texas and Wisconsin producers were more likely to plan to wait and possibly switch to ACRE later and cotton growers strongly intended to stay with existing programs in 2009, likely due to the large ‘cost’ of giving up the relatively larger direct payments for cotton and price expectations that made counter-cyclical payments more likely.

Our empirical analysis of actual, county-level ACRE enrollment rates suggests that crop effects were again important – cotton areas had low enrollment rates, wheat areas had high enrollment rates, and counties with more diversity in crops had higher enrollment rates. In addition, regions where farmers believed yield variability would be an important source of risk also had higher enrollment. Programmatic knowledge and transactions costs also mattered for ACRE enrollment. Counties with greater participation in current farm programs had higher ACRE enrollment rates, as more growers were likely more familiar with how farm programs worked and/or received more educational efforts. Similarly, as all owners and operators must sign ACRE election forms, counties with a greater proportion of farmers renting land and/or buildings had lower enrollment rates.

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Many regressors measuring farmer beliefs and attitudes were significant in both analyses, indicating the key role that attitudes and beliefs play in decisions about farm programs. In some cases, however, similar regressors showed opposite effects, which we interpret as evidence that farmer beliefs about and understanding of ACRE were rapidly evolving during the months immediately preceding the ACRE deadline.

These results lead us to conjecture about what many economists and policy analysts failed to foresee about ACRE participation – programmatic intangibles arising from uncertainty and administrative complexity. The ACRE decision was clearer for farmers focused on some crops (e.g., cotton and wheat). However, the fact that many producers did not follow recommendations – to sign up for ACRE because expected returns would exceed returns from traditional programs – runs contrary to the often accepted notion that producers are simply rent seeking in farm program participation. This paper takes a first step toward understanding why.

Anecdotes of not being able to obtain clear programmatic answers from the USDA Farm Service Agency (FSA) at the time of our survey suggest that producers may have perceived a significant value to deferring the decision until greater program clarity and more experience were obtained. Also, anecdotes of farmers operating more than 40 farm serial numbers and having to obtain signatures from numerous landlords in order to enroll in ACRE suggest that transactions costs were also important. Interestingly, ACRE participation has not significantly increased over the life of this Farm Bill.

Over time, a variety of forces have pushed farm policy toward a more complex revenue-based commodity program, rather than separate price and yield risk management programs that have dominated for many years. In the end, our results suggest that the next Farm Bill debate needs to consider whether farm program complexity has reached a point that those intended to benefit from the policy cannot effectively evaluate and utilize the farm program options offered. Perhaps more effort should be devoted to examining simpler revenue-based commodity support programs that are easier for farmers and non-farm landlords to understand.

Finally, as economists, we may need to be more cognizant of farm program uncertainty in our policy assessments. Perceiving farm policy as simply an exercise in rent-seeking, those asking for the ACRE program may have pushed to create a program that would pay in high-price scenarios, but in the end created something difficult for USDA to implement and nearly impossible for producers to fully comprehend. However, viewing these programs as tools to provide risk protection, economists perhaps need to step back and recognize that producers face not only price and yield risk, but increasingly another risk – farm program uncertainty

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