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Cutting farm direct payments might not save as much as first appears, MU FAPRI reports

Source: Pat Westhoff, 573-882-4647

COLUMBIA, Mo. – Cutting direct payments to farmers appears to save $4.9 billion per year in the federal budget. However, cutting that USDA program could boost farmer participation in ACRE, a program that offsets losses in farm income.

“Much of the budget savings from cutting direct payments could be offset by sharp increases in ACRE program expenditures,” says Pat Westhoff, director of the University of Missouri Food and Agricultural Policy Research Institute (MU FAPRI).

A report released today compares payment cuts to expected expenditures in the 2012 MU FAPRI baseline. The think tank maintains computer models of the farm sector.

“Cutting direct payments would have important effects on federal budgets, farm income and farmland value,” Westhoff added. “Impacts on crop production and prices would be small.”

A group taking a big hit could be landlords, owners of cropland rented to farmers.

Under provisions of the current Farm Bill, farmers can enroll in ACRE (Average Crop Revenue Election), a farm-income safety net. However, ACRE drew little participation. When enrolling, farmers must give up 20 percent of their direct payments.

“Direct payments became a disincentive to enroll in ACRE,” Westhoff said. “Cutting direct payments might drive farmers into the program.”

To test that potential, FAPRI economists ran two “what-if” scenarios. The first assumed ACRE participation remained the same as in the current FAPRI baseline. The second run assumed 100 percent of farmers enrolled in ACRE to protect income.

“If there is no increase in ACRE participation from the current 14 percent of base acres, farm program net outlays are cut $41.7 billion from FY 2012 to 2021,” Westhoff said. “In contrast, if all producers rush into ACRE when direct payments are cut, federal outlays would fall only $18.9 billion.”

Cuts in direct payments also lower farm income and prices of farmland.

Depending on ACRE enrollment, net farm income could drop $1.9 billion to $3.2 billion per year. Farmland values decline an average of 1.8 to 2.7 percent compared to baseline.

The effects on crop income vary for different farmers. “Direct payments are a much larger share of income for some producers,” Westhoff said.

Farmers now receive direct payments averaging about $24 per enrolled corn acre, compared to $11 for soybeans, $15 for wheat, $34 for cotton and $95 for rice. If there is no change in ACRE participation, the increase in market prices would offset only a small fraction of the cuts in direct payments.

“The story becomes more complex if ACRE enrollment increases to 100 percent,” Westhoff said. That would eliminate most marketing loans and all countercyclical payments, but ACRE payments would increase.

For new participants, ACRE payments could offset part of the cuts of direct payments.

“ACRE payments are most likely to offset lost direct payments for soybean growers and least likely for cotton growers,” Westhoff said.

“Actual participation in ACRE is hard to predict,” he said. “It would likely fall between the two FAPRI scenarios, which provide a bracket of outcomes.

“Another difference with ACRE is that landlords must agree to allow the renter to participate. That could affect enrollment.”

Now, direct payments are not tied to acres planted. Under ACRE, payments are based on actual planted acres. This could increase crop acreage and boost production, offsetting some effects of direct-payment cuts.

“Even with 100 percent participation in ACRE, the change remains quite small on total area planted to major crops,” Westhoff said. “While most crops increase slightly, cotton acreage declines.”

Switching to ACRE would bring minimal change to food expenditures. “Food costs are projected to change less than one-tenth of one percent,” Westhoff said.

“Potential Impacts of Eliminating Direct Payments,” an 18-page report, is posted on the MU FAPRI website: http://fapri-mu.org/.

For more than 25 years, MU FAPRI has provided financial analysis to the U.S. Congress on proposed policy changes in agriculture. Economic models of all crops and livestock are in the FAPRI computers. The models are used to prepare annual 10-year baselines.

“One advantage of the FAPRI model is that it shows when a small change in one area causes a big change in another area,” Westhoff said. “In our economy, all things are connected. What appears as a commonsense move can have unintended consequences.”

MU FAPRI is a part of the College of Agriculture, Food and Natural Resources.