

Policy



Jack Harrison

1996 Farm Act Sets Stage for Acreage Shifts

In the first two seasons under the new farm legislation, U.S. farmers adjusted their planting decisions to take advantage of strong crop prices. In 1996, total acreage planted to principal crops rose more than 16 million acres to 334.5 million, with acreage in 1997 remaining nearly unchanged from the 1996 level.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act) allows farmers more flexibility to respond to strong market price signals (*AO Supplement* April 1996). The eight major crops most affected by the change in policy are wheat, corn, sorghum, barley, oats, upland cotton, rice—all previously covered by supply management programs—and soybeans. Total plantings for these eight crops rose from about 245 million acres in 1995 to 261.6 million in 1996, falling only slightly to 261 million in 1997. These crops accounted for virtually all of the changes in principal crop acreage during the past 2 years.

Increased total acreage reflects the supply response to higher absolute prices. In addition, a change in the mix of planted crops is a response to changes in relative

prices among the crops, combined with some year-specific weather-related events. Increased planting flexibility under the new farm legislation facilitated producers' ability to change land use.

The farm legislation enacted in 1996 made important changes in the nature of government commodity programs, including supply management for major field crops. The 1996 Farm Act increased farmers' planting flexibility by eliminating acreage reduction programs (ARP's), base acreage planting requirements to maintain eligibility for program payments, and limits on flex acreage that farmers could plant to other crops. The increased planting flexibility has facilitated producers' ability to adjust both total land use and the cropping mix over the past 2 years. Some planting constraints continue for program participants under the 1996 act, in the provisions for conservation of highly erodible lands and protection of wetlands.

Under a continuation of previous farm law, higher prices in 1996 and 1997 would have brought additional land into production from previously idled acres, and 25-percent planting flexibility would have allowed switching among crops (15 percent "normal" flex acres and 10 percent optional). However, base acreage considerations, limited flexibility, and ARP's would likely have constrained acreage adjustments farmers could make to the large runup in prices and to the price relationships among crops. This spring, for example, soybean prices exceeding \$8 a bushel were high in relation to prices for competing crops such as corn.

By removing the base acreage planting constraints and flexibility limitations of previous farm law, the 1996 Farm Act permitted a faster supply response to the economic incentives provided by absolute and relative price movements. Greater ability of producers to respond to signals from the marketplace results in agricultural production being economically more efficient.

The significant gain in the 1996 aggregate acreage planted to major field crops was due largely to higher prices for most major field crops, combined with com-

modity program changes that increased planting flexibility. Some of the 1996 acreage increase resulted from double counting of failed winter wheat land that was replanted to alternative spring-planted crops. In 1997, total plantings remained near the 1996 level, but a new set of relative prices led to a different mix of crops planted.

Land idled in 1995 likely provided much of the acreage gains during the past 2 years, brought into use in response to high price incentives. In 1995, the last year under the previous farm law, nearly 5 million acres had been idled under corn and rice ARP requirements. Flex acreage voluntarily left idle by farmers accounted for an additional 5 million acres. Another 13.6 million acres had been idled under voluntary 0,50/85-92 programs.

Within the higher acreage total of the last 2 years, changes in the mix of crops planted have resulted from relative price shifts among various crops combined with year-specific weather-related events. Large acreage shifts to corn and spring wheat in 1996 and to soybeans in 1997 reflected price incentives that favored planting those crops rather than competing crops, as well as some weather-induced planting adjustments.

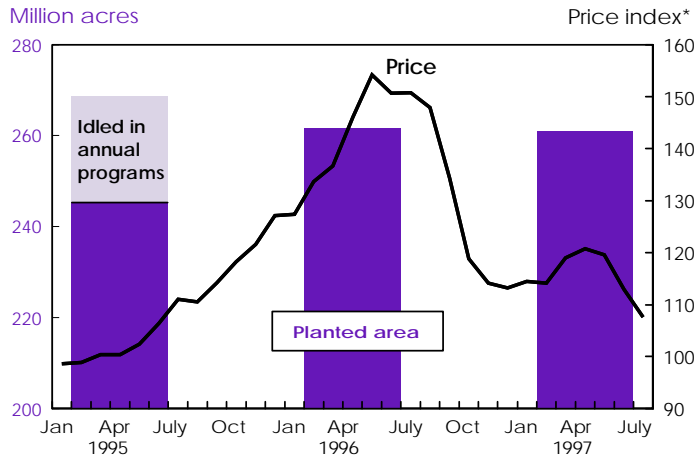
For 1996, in eight southeastern and Delta states (Arkansas, Louisiana, Mississippi, Alabama, Georgia, South Carolina, North Carolina, and Tennessee), corn acreage increased sharply and soybean plantings rose, while upland cotton and rice acreage fell. Corn prices in the spring planting season were very attractive relative to cotton prices, and opportunities for early harvest provided additional incentives for the shift to corn. In 1997, soybean plantings grew further in these states as strong soybean prices drew acres from upland cotton, corn, and wheat. Rice acreage also rose in 1997, reflecting strong prices this year.

In Texas, Oklahoma, and Kansas, acreage rose sharply for sorghum in 1996, due in part to its strong prices. Sorghum gains also reflected replanting of failed winter wheat area to sorghum and drought-induced shifts from cotton in Texas. In 1997, total planted area in these states is smaller partly because of the double

Policy

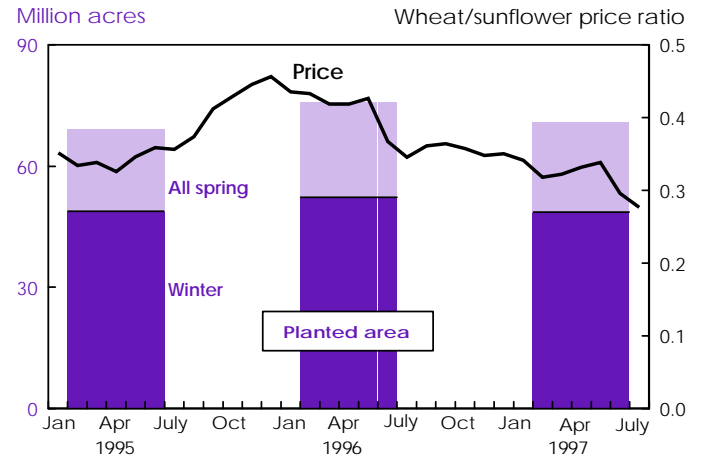
Relative Commodity Prices Are a Key Factor in Planting Decisions

8 Major Crops

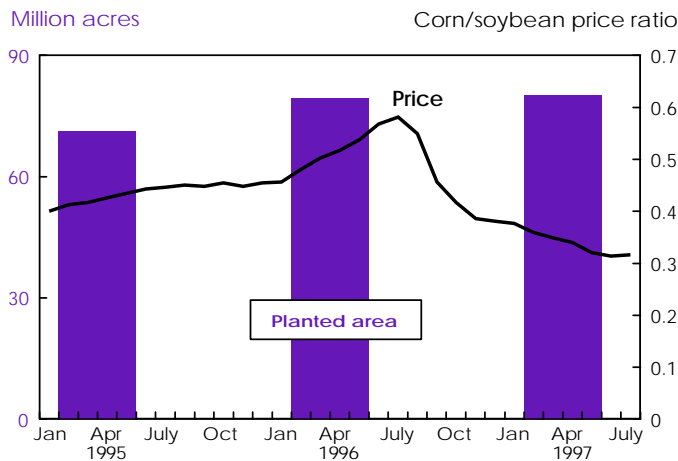


Wheat, corn, sorghum, barley, oats, rice, upland cotton, and soybeans.
*1990-92=100

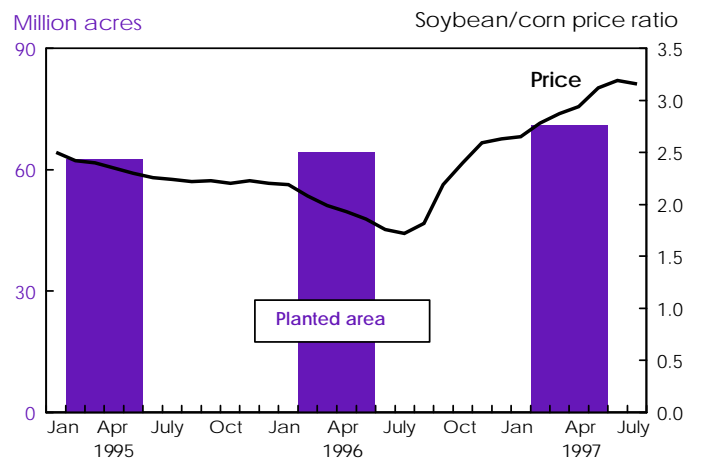
Wheat



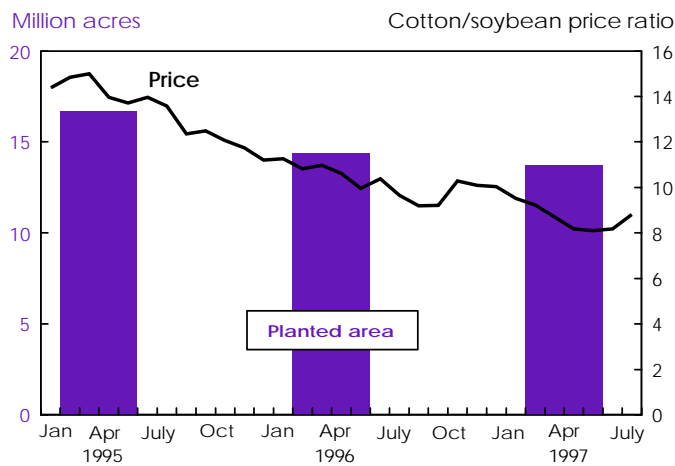
Corn



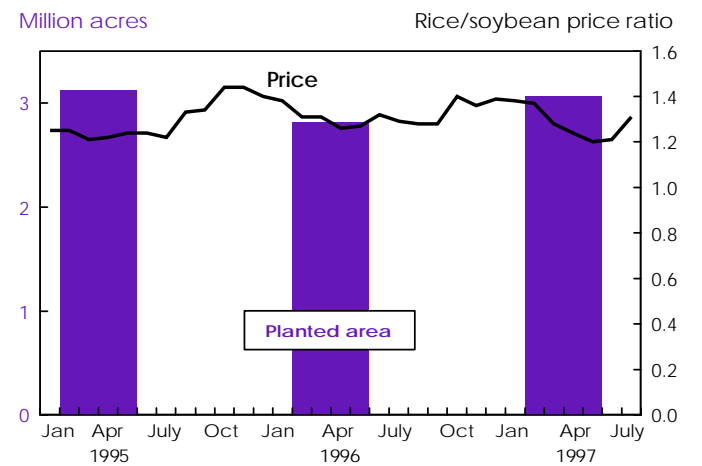
Soybeans



Upland Cotton



Rice



counting in 1996 of failed winter wheat land that was replanted. Plantings of sorghum in 1997 declined sharply as its prices fell relative to wheat and cotton, although sorghum area remained above 1995 levels.

In Minnesota, North Dakota, and South Dakota, strong prices in 1996 pushed up total plantings. For the three-state total, the increase in plantings was about equal to the amount of land idled under annual commodity programs in the previous year. Spring wheat and corn captured most of the 1996 acreage gain, reflecting higher relative prices, with soybeans and barley rising less. Notably, high wheat prices in the spring of 1996, following the reduction in winter wheat production potential in other regions of the country, provided a strong incentive for spring wheat area expansion. Also, acreage planted to sunflowers and other minor oilseeds fell in

1996, reflecting lower prices relative to wheat.

Some of the 1996 gain in spring wheat acreage likely occurred on land typically in summer fallow, as plantings were no longer limited to the program crop acreage base of prior law. In particular, 1996 wheat plantings in North Dakota equaled that state's 1995 wheat acreage base plus about two-thirds of the 1995 total normal flex acreage of other program crops. This suggests that 1996 North Dakota wheat plantings would have been hard to achieve within the program bounds of previous legislation.

For 1997, in contrast, strong soybean prices relative to corn, wheat, and barley shifted land in the tri-state region to soybeans from those competing crops. Acreage planted to minor oilseed crops also rebounded somewhat this year on the strength of oilseed prices.

In the Corn Belt, a large increase in 1996 plantings came mostly from land idled under annual commodity programs in the previous year. Strong prices for corn relative to competing crops led to corn plantings capturing nearly all of the region's increase in total acreage. Additional increases in Corn Belt plantings in 1997 pushed the 2-year gain in acreage above the amount of land idled under annual commodity programs in 1995. Strong soybean prices relative to corn and wheat prices shifted land to soybeans in the region for 1997, with corn acres rising less and wheat area falling. The nearly complete planting flexibility helped in attaining these adjustments.

Paul Westcott (202) 219-0609 and Ed Young (202) 219-0680
westcott@econ.ag.gov
ceyoung@econ.ag.gov

AO



Marketing processed food around the globe

Two-thirds of all international trade in the food and agricultural sector is in processed foods. Exports and imports are a large part of the picture, but U.S. processed food firms reach overseas markets mainly through their affiliates abroad. Strategies for penetrating global markets, and the array of public policies that influence global commerce in processed foods, are examined in a fact-filled report.

Globalization of the Processed Foods Market An Economic Research Service Report

To order a copy, call 1-800-999-6779 in the U.S. and Canada.
Stock No. AER-742

Also available on the ERS Home Page

Direct access to the Acrobat PDF file at <http://www.econ.ag.gov/epubs/pdf/aer742/>

For more information on ERS publications, databases, and other products, visit the
ERS Home Page at <http://www.econ.ag.gov/>