Issue. Because government-set target prices for wheat, feed grains, rice, and cotton exceed market prices, acreage reduction programs (ARP's) are needed to limit Federal budget outlays and to prevent the buildup of surplus government stocks. However, by reducing production and raising market prices for grains and cotton, ARP's make these U.S. commodities less competitive in world markets. The tradeoff between competitiveness in global markets and limiting government exposure remains an issue.

Context. The precedent for idling acreage was set in the 1930’s and was heavily used in the late 1950’s, the 1960’s, and sporadically in the 1970’s. ARP’s were authorized by the Agriculture and Food Act of 1981 to replace acreage ”set-aside” programs used in the 1970’s. In contrast to set-asides, ARP’s allow the government to implement acreage control by idling land on a commodity-specific basis. Although participation in ARP’s is voluntary, producers must participate to be eligible for program benefits, such as deficiency payments. Deficiency payments, which are based on the difference between the target price for a program crop and its average market price during a specified time period, constitute the bulk of government spending on program crops. ARP’s limit deficiency payment outlays by cutting the acreage eligible for payments and the deficiency payment rate (by raising market prices).

There was little initial debate over the use of ARP’s to cut production of grains and cotton. Rising target prices and high price supports under the Agriculture and Food Act of 1981 caused U.S. production of program crops to far exceed market demand. The result was massive stocks accumulation in the United States and escalating government costs.

The Food Security Act of 1985 set U.S. agriculture on a more market-oriented course. For example, price supports were reduced. This action allowed U.S. market prices to fall toward world price levels. However, this caused larger differences between target prices and domestic market prices, which intensified the need for ARP’s to limit government outlays for deficiency payments.

Several developments have brought into question the regular use of ARP’s to reduce production. They include the drawdown of grain stocks from the high levels of the mid-1980’s and the removal from production of 23 million acres of grains and cotton base enrolled in the 10-year Conservation Reserve Program (CRP). In addition, the Omnibus Budget Reconciliation Act of 1990 (OBRA) made 15 percent of each program crop acreage base ineligible for deficiency payments. The 15-percent unpaid portion of base acres is known as "normal flex acres" or NFA. The NFA provision makes the added taxpayer costs of smaller ARP’s less burdensome. These developments allowed USDA to implement smaller ARP’s in recent years. As a result, cropland idled under annual programs declined from an average of 53 million acres in 1986-88 (one-fourth of the program crop base) to 19 million acres in 1992.

Increased focus on the effects of ARP’s has been associated more recently with the "GATT triggers" in the 1990 OBRA. Under this provision, USDA may waive minimum ARP requirements mandated for 1993-95 crops if the United States had not entered into a General Agreement on Tariffs and Trade (GATT) agreement by June 30, 1992. Because there was no agreement by that date, the Secretary of Agriculture has additional discretionary authority in setting ARP levels.
At Stake. Program crop producers, taxpayers, and consumers are directly affected by ARP's, as effects ripple throughout the economy. The tradeoffs are illustrated by a study conducted by the Economic Research Service in early 1992. The short- to intermediate-term effects of ARP's were measured by comparing a scenario of "high ARP's" (10 percent for the grains and 15 percent for cotton) to a scenario of zero-percent ARP's for all program crop commodities.

The ERS study indicated total annual plantings of program crops could average 13-14 million acres larger during 1993-95 under zero-percent ARP's, compared with the higher ARP case. U.S. exports of grains and cotton would be larger under zero-percent ARP's, and market prices would be lower. Domestic consumers would benefit as they could buy more at lower prices, but government outlays for deficiency payments would be several billion dollars more each year.

U.S. net farm income, while greater under the zero-percent ARP case, would rise less than deficiency payments. Income from production of program crops would be larger, while income from nonprogram crops, such as soybeans, would be smaller due to lower prices. Net income from livestock production would be higher under zero-percent ARP's, mainly due to lower feed costs. Livestock production would expand slightly and meat prices would be lower. Agribusiness and local economies would benefit from higher levels of production and marketings under zero-percent ARP's.

Alternatives. The Food, Agriculture, Conservation, and Trade Act of 1990, which covers crops produced through 1995, links ARP percentage levels for a program crop commodity to its estimated ending stocks-to-use ratio for the marketing year. The stocks-to-use ratio is an indicator of surplus; generally, the larger the ratio, the higher the required ARP percentage.

Without the GATT triggers, USDA has limited discretion in setting ARP requirements under provisions of the 1990 farm law. For example, the ARP for wheat may be 10-20 percent if the estimated stocks-to-use ratio is more than 40 percent; the ARP may be 0-15 percent if the estimated ratio is 40 percent or less. The GATT triggers allow USDA to implement zero-percent ARP's during 1993-95, without regard to stocks-to-use ratios.

A focus solely on the Federal budget deficit would support setting ARP levels at the high end of the permitted range. However, some argue that the economic costs of using ARP's to limit government spending on farm programs are too high. They say that productive resources are left idle, export market share is lost, and costs of export programs are greater. Supporters of this view suggest other options for cutting farm program spending, such as an increase in the NFA percentage or a reduction in target prices.

Agenda. Without a GATT agreement, USDA has wide discretion in setting ARP levels for 1993-95 crops. The 1995 farm bill can be expected to set ARP policy for the rest of the decade. Another factor is that CRP contracts will begin to expire in 1996. Most of the enrolled program crop base could be returned to production and be eligible for deficiency payments, unless there are incentives to the contrary. Nevertheless, the case for using ARP's would weaken if one or more of the following occurs: target prices are reduced or further cuts in payment acres are made, a GATT agreement is reached with a concomitant rise in U.S. exports, research on new uses of farm products leads to an expanded acreage of alternative crops, and food safety or water quality concerns lead to a substitution of land for yield-boosting chemical inputs.