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It's Time to Coordinate Land Retirement and Export Policies

New farm legislation will be considered in the coming months. This legislation will set the stage for land retirement in the 1990s. It is important that the legislation recognize the effect of land retirement on U.S. farm exports, not just the effects on conservation. These tradeoffs are especially critical because of uncertain weather effects on production, low inventories of farm commodities, and uncertainty about export prospects.

The difficulty and importance of these tradeoffs have increased in recent months: (1) the drought of 1988 illustrated again the impact that weather can have on food production capacity, (2) the drawdown in inventories associated with the drought tightened up supplies of food commodities and made future crop size more critical, and (3) the drop in volume of our farm exports increases the uncertainty about future export trends and the appropriate amount of land retirement.

The uncertainty from last year's drought comes on top of a large amount of uncertainty created earlier in the decade when a sharp decline in export volume raised questions about our ability to compete in international markets. That experience created a perception that the nation's farm production capacity was far in excess of market needs. It was a perception that was reinforced later in the decade when larger export shipments came out of stockpiles rather than from more acreage. The number of

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idle acres remained high even though exports were increasing rapidly. Had it not been for the large stockpiles, a large amount of acreage would have had to be returned to crop production in 1987 and 1988 to meet expanding export shipments—or prices would have been substantially higher.

Permanent Excess Capacity Perception

When the Conservation Reserve Program (CRP) was legislated in 1985, many believed that excess capacity was a permanent feature of U.S. agriculture. Policymakers embraced a goal of "locking up" 40 million acres of cropland under 10-year con-

tracts. These contracts were authorized under the CRP.

Shortly after the writing of the 1985 Farm Bill, demand for U.S. farm products improved and export tonnage increased. It reached 129 million tons for the 12 months ending October 1, 1987, nearly 20 percent above the 110 million ton 1986 FY low. Even so, exports in FY87 were some 35 million tons below the previous high.

And then in 1988 the drought reduced production sharply, stocks were drawn down, prices increased, and exports shrunk again after increasing to 148 million tons in FY88. The United States lost export opportunities simply because we did not have sufficient supplies. As a consequence, prices increased and exports shrank.

The undercapacity of our production system relative to domestic and international demands was not recognized because inventories of previous years' production were available—their drawdown was equivalent to 30 million acres of crop production.

Thus, instead of a 1987 idle capacity of 76 million acres we more nearly had 46 million acres. The situation would have been roughly the same in 1988. But the drought further reduced crop production. Exports declined and stocks of major export crops dropped by nearly 100 million metric tons in comparison to a drawdown of 35 million metric tons after the 1987 crop.

This year, 1989, nearly 60 million acres are held out of production—slightly over one half of these acres are tied up in the CRP. Nearly four-fifths are acres that would have been planted to the eight major export crops if they were not withheld from production. Normal weather in 1989 will permit exports in FY90 of only 130 million tons—a far cry from the 150 to 160 that might be exported if supplies were available.

Balance Needed

Land retirement policy decisions directly affect—some say determine—the eventual level of exports. Once the number of crop acres held out of production (with set-asides or the CRP) are set, crop production becomes a matter of technology and weather. Exports are then determined by resulting production, prices and conditions in other countries—including competitor countries. Stocks, if available, can fill shortfalls in U.S. production for a year or two in order to meet export opportunities. However, if they are not available, either export opportunities are foregone or acreage must expand. Acreage under annual retirement programs can be adjusted relatively quickly, but not the acreage under long term programs.

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This points up the need for balance in land retirement programs. We can err in two ways. We can place too much acreage in long term contracts and make export growth a hostage of weather conditions. We can err on the other side, too. Too few acreage under long term retirement programs places too large a burden on annual retirement programs and opportunities for greater soil conservation are missed.

A better option is a moderate size CRP program that achieves the maximum amount of conservation but minimizes interference with farm export opportunities. This can be achieved, and may already have been realized with a 40-million-acre reserve. The danger for us is that we drift into a larger and larger conservation reserve program unaware of the adverse effects the expansion may have on exports.

The present CRP was established in a period when there were record numbers of idle acres—some 78 million acres in 1983. While the drought of 1983 led to a sharp reduction in 1984 acres idled—only 27 million acres were idled that year—the general view during the deliberations on the 1985 Farm Bill was that excess capacity was far larger than 27 million acres. This led to the inclusion of the 40 to 45-million-acre Conservation Reserve Program in the Food Security Act of 1985. A minimum level of 40 acres was set for enrollment by 1990.

In spite of the limitations of supply availabilities for exports, there are already proposals to increase the number of CRP acres much beyond the original 40 million acre goal—to as much as 60 million acres. But production from many of the currently idled acreage will be needed if we are to rebuild export volumes to the 160-million-ton annual level in the early 1990s. Even the continuation of exports at the FY88 148-million-ton level will require production from many retired acres now that inventories have been drawn down.

In reality, some of the perceptions underlying the 1985 Farm Bill were not completely accurate. The two major droughts of the past five years suggest that there is less excess capacity on average than previously thought. In addition, the rebound of export volume in the 1986-88 period also suggests that more cropland is needed to meet export demands than was thought to be the case at the time Congress approved and the President signed the 1985 Farm Bill.

Self-Fulfillment

My concern is that a larger land retirement scheme will be self-fulfilling. Larger and larger amounts of acreage in land retirement programs will push U.S. commodity prices up to non-competitive levels. Export growth will be stifled. Calls for even further expansion of retirement programs are sure to follow. And most of us will overlook the reality that the higher targets for CRP acreage was the real culprit. It will be more convenient to blame unfair trade practices.

The United States can hold a price umbrella for the rest of the world in different ways. High price supports is one way, as was done with the 1981 Farm Bill. Another is to hold too much acreage out of production and thereby keep crop supplies tight and market prices above support levels and above production costs of competitor countries.

My assessment is that the United States has far less excess capacity than is generally thought—especially if we intend to promote exports of farm commodities. In such assessments, indirect effects of policies, as well as direct effects must be

taken into account.

Soybean developments are instructive. In the early 1980s, nearly 68 million acres of soybeans were harvested. Even though there was no soybean acreage reduction program per se, by the late 1980s the soybean acreage had tapered off to less than 58 million acres. Export supplies were adversely affected—the victim of income support programs and land retirement programs for other crops.

The feed grain program penalizes producers who plant soybeans on feedgrain land. Producers, who do so, lose feed grain program income payments. Idling wheat land eliminates opportunities to double crop wheat land with soybeans. At one point in the early 1980s, there were 12 million acres of double cropped soybeans in the United States. Today the number is nearer 4 million acres.

And while the U.S. planted fewer acres to soybeans, other countries planted more land to soybeans, especially Argentina, Brazil, and Italy.

Clearly, the land retirement programs are not responsible for difficulties with cotton exports. However, the cotton support program has not been structured to make cotton fully competitive in world markets. In turn, cotton acreage in foreign countries has increased much like the experience with soybeans.

Programs making soybeans and cotton fully competitive in world markets will lead to large export opportunities and therefore opportunities to have more acres in production and less in retirement programs. Consequently, the actual amount of excess capacity in the agricultural sector depends to a significant degree on our determination to take advantage of world markets.

We may, in fact, choose whether our idle capacity is large or small.

If we wish to export more, we must produce more. Of course, it does little good to produce more unless we structure our domestic

price support programs so that we are competitive in world markets. This points up the obvious. Our policies on land retirement and exports must be coordinated. It does little good, for example, to restructure our price support programs to be competitive and then lock up large amounts of cropland with long term land retirement contracts. Neither does it do any good to produce more if our domestic policies make our commodities uncompetitive in global markets. Either approach would be a half-hearted farm policy. Both policy programs must be balanced in order to achieve an appropriate mix of export and conservation goals. **C**

Many believed that excess capacity was a permanent feature of U.S. agriculture.

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