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THE AGRICULTURAL ACT OF 1977 was signed into law last week by President Carter. It is a complex instrument which, coupled with the government's return to prominence in the commodity markets, will require farmers to orient themselves to the technicalities of the new farm programs. The regulations for implementing the new act have not yet been completely formulated and are still subject to revision following publication for comment. The following discussion highlights the set-aside and deficiency payment provisions that are likely to be implemented and have an important bearing on 1978 plantings. An earlier issue of *Agricultural Letter* (No. 1443) discussed some of the basic provisions of the new act, including loan rates and target prices.

Set-aside provisions have several new wrinkles. The Administration has already announced a 1978 wheat set-aside of 20 percent, and a final announcement on a feed grain set-aside—tentatively expected to be 10 percent—will likely follow the October 12 *Crop Production* report. The set-aside programs are voluntary, but farmers must comply in order to be eligible for loan, disaster, and deficiency payments.

Under the new set-aside provisions, compliance will be measured against the acreage actually planted for harvest rather than against the historical base acreage or the allotment acreage. Hence, a farmer that elects to participate in the 1978 wheat program must set aside an acreage equivalent to 20 percent of the 1978 wheat acreage actually planted for harvest. The acreage set aside must be in an approved vegetative cover crop, which will preclude summer fallow.

The new provisions require that set-aside acreage must come out of each farm's "normal crop acreage base." Each farm will be assigned a normal crop acreage base, which—in general—will be equal to the acreage of "designated" crops planted in 1977. Designated crops will include almost everything other than hay and pasture. When set-aside requirements are imposed, the planted acreage of all "designated" crops on a participating farm must not exceed that farm's normal crop acreage base less the set aside.

Strong cross-compliance standards are another important new aspect of the set-aside provisions. In the past a farmer who desired benefits of only one program but raised more than one set-aside crop—any crop for which set-aside provisions were in effect—only had to comply with the requirements for the crop that offered the desired benefits. Henceforth, such farmers will have to meet the set-aside requirements for all set-aside crops they plant. In the same vein, a soybean farmer who also plants a set-aside crop—such as wheat or, if implemented, corn—must comply with the set-aside requirement on that crop in order to be eligible for the soybean loan program.

Deficiency payment benefits will be determined by an "allocation factor" that will range from 0.8 to 1.0 under the new act. The level in any given year will be determined by the Secretary of Agriculture in accordance with the ratio of desired acreage—to meet domestic and export needs—to actual planted acreage. A farmer's total deficiency payment will be equal to the normal production from the acreage he planted, times the allocation factor, times the difference between the target price and the national average market price.

Farmers can assure themselves of an allocation factor of 1.0 if provisions for a "recommended acreage reduction" are announced, and if they comply with the recommended acreage cutback. For example, producers who comply with the 20 percent recommended acreage reduction announced for the 1978 wheat program will receive full coverage if they reduce 1978 wheat acreage by 20 percent from that planted for harvest the previous year. (The recommended acreage reduction provisions—which are measured against the acreage planted the previous year—should not be confused with those for set-aside. The two are separate and distinct voluntary features of the new act that may be implemented independently or in tandem.)

The overall implications of the act on future plantings are far from clear, in part because of the wide range of options offered to farmers. Nevertheless, the act may encourage a number of trends among Midwest farmers. The strong cross-compliance requirements may lead to increased crop specialization. For example, corn and soybean farmers who also raise small amounts of wheat may not find the benefits of the wheat program sufficient to offset the higher set-aside. Similarly, the lack of set-aside provisions for soybeans in probable contrast to most grains will likely result in expanded soybean acreage. Such a trend would be particularly encouraged if the soybean loan rate is raised to a high level relative to corn.

The new act is also likely to overcome much of the slippage in set-aside acreage that has occurred in the past. The new restriction that requires set-aside to come from acreage planted to designated crops in 1977 appears to have more teeth than previous programs. Furthermore, the recent trend toward double cropping will probably be tempered since double-cropped acreage will be counted twice if planted to two designated crops.

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