The 1996 Farm Bill: Implications for Farmers

Ronald D. Knutson, Texas A&M University, moderator;
John Keeling, American Farm Bureau Federation;
Daryll E. Ray, University of Tennessee.

Ray has done a good analysis of the impacts of the 1996 farm bill, compared with those of extending the 1990 bill. My task is to evaluate the economic environment that farmers are likely to face in the next seven years.

Price Expectations

AFPC's price expectations basically are the same as those presented by Ray. But Table 1 indicates our price expectations from a somewhat broader commodity and interest cost perspective.

Specifically, cotton and rice have been two of the more highly subsidized commodities. But the projected price pattern for cotton now looks much like those for corn, soybeans and wheat. The price pattern for rice, on the other hand, looks quite different. This difference results primarily from the dominance of the world market in price determination.

While U.S. rice traditionally has had a world market share of about 20 percent, it accounts for only about 1 percent of world rice production. The position of U.S. rice in the world market has been largely a result of subsidies—either directly through such export-related programs as P.L. 480 or indirectly through the target price and marketing loan programs.

The marketing loan program is retained under the 1996 farm bill. But, without target price, rice production for the export market is in question and certainly will not be as large as under previous bills. After all, a rice price of around $6 per hundredweight is not likely to generate the production levels that existed under the 1990 farm bill.

Hay would not normally be in a farm program commodity price projection. Previously, farmers could not flex to hay. Moreover, they could not utilize Conservation Reserve Program (CRP) land to produce hay unless there was a disaster declaration. The 1996 farm bill is the first to recognize flexibility to hay production as a legitimate use of land on which payments can be made. Implied by the projected price movements for hay is the notion that a larger number of farmers will find hay to be an attractive alternative—at least until about the turn of the century.

The implications of high feed prices for livestock and poultry are easily overlooked. For example, milk producers who buy feed are caught in a cost-price squeeze. On the other hand, those who raise their own feed are doing quite well—

Table 1. Price Expectations Under 1996 Farm Bill, 1996-2002

Year	Corn	Soybeans	Wheat	Cotton	Rice	Hay	Milk	Interest Rate
					$ per unit			
1996	3.21	7.31	4.25	0.7082	8.04	77.64	14.44	7.90
1997	2.43	6.57	3.55	0.6491	8.29	74.96	14.13	7.75
1998	2.33	5.66	3.40	0.6424	8.18	71.45	13.49	7.75
1999	2.27	5.55	3.48	0.6171	7.75	66.09	13.77	7.81
2000	2.34	5.53	3.51	0.6131	8.03	64.45	13.10	7.68
2001	2.32	5.64	3.27	0.6395	8.02	62.81	13.03	7.42
2002	2.43	5.78	3.22	0.6185	8.09	63.62	13.02	7.12

albeit not as well as they would be doing if they had sold their crop at market highs. But then relatively few farmers are successful in selling at the market high.

Flexibility Impacts

The most frequently asked question of AFPC involves what is going to be produced and where is it going to be produced under the flexibility provisions of the 1996 farm bill. Our analyses suggest the following for crops:

- **Midwest**. Corn is king in the Corn Belt. The Midwest has an absolute advantage in corn over the rest of the country—and perhaps the world. Marginal increases in corn acreage may be seen in the Midwest as ineligible CRP land exits the program. But there will be larger increases in soybean acreage, as farmers shore up their crop rotation patterns.

- **Great Plains**. There will be more corn, sorghum and soybean production in the Great Plains. From Nebraska on south, preference will be given to corn in areas where water is available. But sorghum production will come back, as Mexico returns to the market. The northern Plains will see some substitution of wheat for barley, but whether the United States can effectively compete with Canada in barley production is an increasing question.

- **Texas**. When considered separately from the Great Plains, Texas appears likely to experience reduced cotton and rice acreage. Corn and sorghum will be the most attractive alternatives.

- **Southeast**. While cotton production has returned to the Southeast, its future is questionable. Corn production will increase, where feasible. Double cropping of wheat and soybeans also will work in some regions. Cotton production will decrease, but the question is: How much?

- **Delta**. The Delta has the most varied cropping options of any major U.S.

multi-state area. Still, corn production there can be expected to jump, as cotton and rice decline.

- **West**. Less barley, cotton and rice are a virtual certainty for the West. The decline in cotton and rice production could be substantial. What happens to rice is heavily dependent on Japanese and Korean import policies. Increased wheat, corn and hay acreages in the West could be fairly evenly distributed.

These are short- and intermediate-run projections. But what will happen in the long run is interesting speculation. Global competition plays a more important role in the long-run outlook. And that competition is governed, in part, by progress toward freer trade.

How globally competitive are we? Here are my thoughts:

- **Corn**. The United States has an absolute advantage.

- **Soybeans**. The United States shares the export market with Brazil and Paraguay. We are strong, but do not have an absolute advantage.

- **Wheat**. The United States already has several significant competitors, and Eastern European countries are becoming more viable competition.

- **Sorghum**. As water decreases in availability and cost, sorghum will replace corn in drier production areas. It will help sustain U.S. dominance in feed grains.

- **Barley**. We will not be a significant global player and may become a net importer.

- **Rice**. We will only produce to satisfy domestic needs.

- **Sugar**. With free trade, U.S. production will vanish, except in the most efficient growing areas.

- **Cotton**. Who knows? The former Soviet Republics and China are such important unknowns in this market that it is difficult to project where U.S. producers will stand in the long run. It seems doubtful that U.S. cotton will rebound to the production acreages that existed under the 1973 to 1995 farm programs. If it does, technology on dryland production probably will be the key to competitiveness.

These are bold conclusions that are subject to challenge. They deserve discussion and dialogue among Extension economists across the United States. What production patterns will be under a free market is a key issue for the future.