U.S. Farm Output: It's Stagnated

by Jerry Sharples and Tracy Hart

U.S. farm output, from the 1930s until 1981, increased steadily, but growth stopped in the 1980s. Now, after 9 years of volatility, total farm output is less than it was in 1981. The largest decline occurred in the production of grains and oil crops such as soybeans. This stagnation of the 1980s is not a production capacity problem, however. The U.S. could produce a lot more. Instead, a fall in export demand accounts for the stagnation of production.

U.S. agriculture did not come close to its production potential in the 1980s. Crop yields increased throughout the decade. With farm program incentives, farmers chose to let productive land lay idle. Chemical and machinery use declined in the 1980s after rapidly increasing for many years. And labor continued to leave agriculture. In other words, if the economic incentives had been there, U.S. farmers could have, and would have, used more land and more inputs and farm output would have expanded.

Domestic Demand Slowly Expanded

The stagnation of agriculture cannot be blamed on a drop in domestic demand for farm products either. U.S. consumers demand and utilize 80 to 85 percent of U.S. farm output. Domestic consumption in the 1980s continued its steady pace of expansion that was set decades earlier.

The Problem: Grain and Soybean Exports

After years of impressive growth, U.S. agricultural exports declined in the 1980s. At the beginning of the decade, the United States exported about $42 billion in agricultural exports. By the end of the decade, the value of U.S. exports was down by more than 10 percent. Not all farm products suffered a decline however. Exports of animal products and fruits and vegetables showed some growth. Their growth, however, was more than offset by nearly a 20 percent decline in the value of grain and oilseed—mainly soybean—exports.

World Grain Trade Stagnated, But EC Exports Up

In the two decades, the 1960s and the 1970s, grain trade expanded sharply. U.S. net grain exports (exports minus imports) increased an average of over 3 million metric tons per year and increased from 30 million tons to over 110 million tons. Other exporters (Canada, Aus-
Australia, and Argentina) increased net exports of their grains through the 1960s, 1970s, and, as a result of the 1980 Farm Bill, through the early 1980s. The European Community grain trade experienced little change in the 1960s and 1970s however. And grain imports of “other” countries, as a group, steadily grew during these two decades.

There was a dramatic shift in the 1980s. Total world grain trade stagnated. Increased imports by developing countries were offset by decreases in Japan and the Soviet Union. U.S. exports declined an average of more than 1.5 million tons per year. Canadian, Australian, and Argentine grain exports suffered a decrease in the late 1980s as well. In contrast, EC net grain exports increased an average of 3.8 million tons per year during the decade.

**Competition for Soybean Trade Increased**

The story for U.S. soybean and soymeal trade is similar to developments in grain markets. For purposes of this comparison, the soybean and soymeal markets were combined by converting trade of soybean seeds to their meal equivalent. As with grains, years of soybean export growth by the United States were followed in the 1980s by falling exports. Soybean exports by Brazil and Argentina, however, continued to grow in the 1980s. Meanwhile, the growth in demand for soybean imports by other countries sharply declined. The change was most noticeable in Central and Western Europe. During the 1960s and 1970s, their imports of soybeans increased at a rate of about 1.3 million tons per year. In the 1980s, however, there was virtually no change in their import volume.

**U.S. Policy Also Curtailed Farm Exports**

Although grain and soybean market opportunities abroad were shrinking in the 1980s, events at home had much to do with the loss of export markets. U.S. farm policy for many decades has made the U.S. the world’s residual supplier of grain. As a result, the U.S. has absorbed the shifts in the volatile year-to-year changes in global grain supply and demand. In the first half of the 1980s, high price supports combined with the increasing value of the U.S. dollar to price U.S. grain out of world markets. As a result, U.S. exports dropped while private and public stocks accumulated to record levels. Lower U.S. price supports during those years would have forced other countries, such as those in the European Community, to accept lower exports or larger export subsidies in response to the decreased world demand. In response to the growing stockpiles, the U.S. government encouraged farmers to withdraw land from production. This program reduced soybean production as well as grain production.

In the latter 1980s, the U.S. lowered price supports and instituted aggressive export-boosting subsidies. These two strategies, coupled with the fall of the U.S. dollar, revived U.S. grain exports, although not to the level of the early 1980s.

**Lessons from the 1980s**

U.S. agriculture has the potential to significantly expand production. U.S. farmers can count on a slow but steady growth of domestic demand for U.S. farm output. However, it is the highly uncertain export market that determines whether farm output will continue to stagnate or regain pre-1980s growth rates.