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AN ANALYSIS OF THE FOOD SECURITY ACT OF 1985

FAPRI Staff Report #1-86
February 1986

Abner W. Womack, Robert E. Young II,
William H. Meyers, and S. R. Johnson

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Food and Agricultural Policy Research Institute (FAPRI)
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Summary

The FAPRI evaluation of the Food Security Act of 1985 (FSA85) was conducted using projections of modest economic growth similar to current levels in the United States and foreign economies, except for Africa, Latin America, and the Pacific Basin countries where improvement is anticipated. Falling exchange rates and lower market prices improve export levels for U.S. farm products, but not rapidly in the short run. The new provisions in the FSA85, the long-term conservation reserve, and the market loan, along with an expanded export provision, enhance U.S. trade volume. However, the legacy of the 1981 Farm Bill, excess production capacity, and high stocks along with slowed economic growth domestically and internationally continue to present major problems for U.S. agriculture. Major conclusions from the analysis are:

- Net farm income declines during the first three years of the FSA85, from $26.6 billion in 1985 to $21.8 billion in 1989. This reduction of farm income will exacerbate the farm financial situation.

- Direct government payments to producers increase to nearly $15 billion in 1988. Total government outlays during the 1987, 1988, and 1989 fiscal years are near 1986 levels, about 20.5 billion, only falling modestly in 1988 and 1989.

- 1986/87 export revenues from program crops decline with the lower prices and a slow increase in export volume. Generally, there is export volume expansion across-the-board as market prices decrease by approximately 20 percent.

- Annual farm prices for wheat, corn, soybeans, rice, and cotton decline as loan rates are reduced; for cotton and rice, the market loan is applied. By 1988/89 annual farm prices for these crops are $2.27/bu., $1.96/bu., $5.05/bu., $5.18/cwt., and $.43/lb., respectively.

- Annual livestock prices raise initially, due to existing cycles and inventory buildup incentives associated with low feedgrain and soybean prices, then decline. By 1989, average annual prices for beef, pork, and chicken are $58.00/cwt., $40/cwt., and $.43/lb., respectively. Dairy prices continue to be determined by support levels.

- Participants relative to nonprogram participants have returns over variable costs that are much higher, (e.g., about $63/acre against $6.50 acre for wheat in 1984/85). These return differentials are due to falling loan rates and/or the market loan and target prices that move lower more slowly, resulting in substantial deficiency payments.

- Excess capacity in U.S. agriculture remains high. By 1988/89 actual production is near use, but potential production from idled land and beginning stocks or potential supply approximate 250, 160, 120, 190, and 210 as percentages of actual production levels for wheat, corn, and soybeans, rice, and cotton, respectively.

Farm commodity prices, gross farm receipts, and net farm income show little prospect for improvement due to unanticipated changes in external factors, used to condition the FAPRI evaluation. Excess capacity at the lower target prices remains a problem that will require sustained change in the economic conditions affecting agricultural income and trade, if the economic situation for U.S. agriculture is to improve.

AN ANALYSIS OF THE FOOD SECURITY ACT OF 1985

Introduction

On December 23, 1985, President Reagan signed into law the Food Security Act of 1985 (FSA85). The FSA85 retains many of the policy instruments in the 1981 Farm Bill. Target prices, which increased under the 1981 Bill, are maintained at 1985 crop year levels through 1987/88 but decline slightly in subsequent years. Loan rates, which were essentially constant during the previous four years, can be reduced substantially. The FSA85 loan rate decrease is designed to increase the U.S. agricultural trade competitiveness. Participants in supply reduction programs are sheltered during the transition to lower market prices by deficiency payments tied to target prices. Increased deficiency payments and lower market prices will ensure high participation rates.

A new policy instrument of the FSA85 is the "marketing loan," which allows participants to repay crop loans at the market price when it is lower than the loan. This provision is mandated for cotton and rice and is available at the Secretary's discretion for other crops. Another new feature of the FSA85 is a 45 million acre long-term land conservation reserve. Under the conservation reserve, fragile land will be idled for 10-15 years at rental payment levels determined by competitive bidding at the county level. A subsidy for reestablishing cover crops is also included. In addition, an expanded export bonus provision permits use of CCC stocks as payments-in-kind to encourage exports (Export PIK) and counter the subsidized exports of competitors and unfair trade practices.

The FAPRI analysis of the FSA85 incorporates these new features, as well as the more traditional program provisions over which the Secretary of Agriculture has increased discretion. The analysis is conditioned by a set of external assumptions concerning the U.S. economy and the economies and trade positions of major competitors and importers of U.S. agricultural commodities as influenced by domestic and world conditions. Since changes in these conditions will affect the FAPRI evaluation of the FSA85, a general historical summary of the performance of U.S. agriculture is provided as a perspective.

Evaluation Procedure

The evaluation of the FSA85 is conducted using the FAPRI annual econometric model of the U.S. livestock-crop sector. The evaluation is for the period 1985/86 through 1988/89. A sequential procedure is applied, incorporating projections for the U.S. and foreign economies from Wharton Econometrics Forecasting Associates. The FAPRI model is solved annually incorporating provisions of the FSA85, external economic projections, and initial conditions given by the solution for the previous year. The specific evaluation process includes:

- Establishing conditions external to U.S. agriculture.

  --Macroeconomic factors influencing domestic and foreign commodity markets.

--Normal weather for the U.S. and foreign countries.

--U.S. farm program parameters and associated policy assumptions for major importers and exporters of agricultural products.

- Estimation of farm program participation using market price expectations and program parameters.

- Computing a preliminary solution for an equilibrium in the crop and livestock sectors, reflecting CCC and Farmer-Owned Reserve changes, the new program features, and export enhancement programs including PL480.

- Assessment of the preliminary solution for:

  --Market prices relative to loan rates and target prices

  --Government stocks positions

- Tuning and finalizing the annual equilibrium solution to comply with provisions of the FSA85.

- Establishing program parameters for succeeding years based on market outcomes and provisions of the FSA85.

- Rolling the modeling system forward one year and repeating the evaluation process, assuring inter-year consistency.

It is necessary in the evaluation process for the FSA85 to introduce a number of judgements on parameters set at the discretion of the Secretary of Agriculture. It is assumed that the policy objective of the Secretary is balanced use of government stocks and acreage, or supply control, to smooth changes in market and other performance variables during the evaluation period.

The Farm Bill Parameters

The theme of the 1985 Farm Bill is to move U.S. agriculture to more competitive position in world markets. Loan rates which have been de facto floor prices in many commodity markets are reduced by 5 to 25 percent beginning in 1986/87. To stabilize farm income, target prices for all commodities are frozen at 1985/86 levels for 1986/87 and 1987/88, then decline by 10 percent during the remaining three years. The conservation reserve, market loan, and export enhancement provisions are directed at the present excess capacity situation, fragile lands in crop production, and the U.S. agricultural trade position.

The specific values used in the program parameters for the analysis of the FSA85 are summarized in Table 1. Note that the conservation reserve is implemented for the five program crops listed in Table 1 at 5.4 million acres in 1986/87, 14.7 million acres in 1987/88, and 22.9 million acres in 1988/89. These levels meet with the provisions of the FSA85 and plausible assumptions on government cost. The export bonus program lowers effective commodity

Table 1. Values for Selected Policy Parameters, 1985 Farm Bill

Crop & Year	Loan Rate	Target Rate	Reserve Entry	Reserve Release	ARP	Paid Diversion Level	Paid Diversion Rate	LTCR
	Dollars per Bushel				Percent of Base		$/bu	Million Acres
Corn								
85/86	2.55	3.03	2.55	3.25	10	--	--	0.0
86/87	1.92	3.03	1.92	3.25	17.5	2.5	0.73	1.0
87/88	1.82	3.03	1.82	3.25	20	--	--	2.2
88/89	1.73	2.97	1.72	3.25	20	--	--	3.3
	Dollars per Bushel				Percent of Base		$/bu	Million Acres
Wheat								
85/86	3.30	4.38	3.30	4.45	20	10	2.70	0
86/87	2.40	4.38	2.40	4.45	22.5	2.5	1.10*	2.8
87/88	2.28	4.38	2.28	4.45	27.5	--	--	8.2
88/89	2.17	4.29	2.17	4.45	30	--	--	13.7
	Cents per Pound				Percent of Base		¢/lb	Million Acres
Cotton								
85/86	57.0	81.0	--	--	20	10	30	0
86/87	55.0	81.0	--	--	25	--	--	.4
87/88	52.0	79.0	--	--	25	--	--	0.8
88/89	50.0	77.0	--	--	25	--	--	1.2
	Dollars per CWT				Percent of Base		$/cwt	Million Acres
Rice								
85/86	8.00	11.90	--	--	20	15	3.50	0
86/87	7.20	11.90	--	--	35	--	--	0
87/88	6.84	11.66	--	--	35	--	--	0
88/89	6.50	11.30	--	--	35	--	--	0
	Dollars per Bushel				Percent of Base		$/bu	Million Acres
Soybeans								
85/86	5.02	--	--	--	--	--	--	0
86/87	4.77	--	--	--	--	--	--	1.2
87/88	4.77	--	--	--	--	--	--	2.5
88/89	4.77	--	--	--	--	--	--	3.7

ARP: Acreage Reduction Program
LTCR: Long Term Conservation Reserve

*Also, 10 percent paid diversion for winter wheat producers at $2.00/bu.

prices to qualifying importers by use of payment-in-kind (PIK), cash or blended credit. A total of $2 billion is mandated for the export enhancement program, with targeted assistance to counter unfair trading practices at $325 million annually.

The market loan is introduced for rice and cotton and is available to the Secretary for other program crops. This new feature of FSA85 eliminates the possibility that U.S. loan rates will provide a floor for world commodity prices. In the past, U.S. loan rates have at times functioned as floor prices, encouraging capacity expansion in competing countries and limiting trade. The market loan permits prices to fall to equilibrium levels and authorizes what is in effect an added payment to farmers who use the loan, equal to the loan rate less the market price.

Maximum allowable reductions in loan rates and maximum acreage reductions (ARPs) have been announced for 1986/87. Paid diversions are mandatory for wheat and corn in 1986/87, and the payment rates have been chosen by the Secretary. It is assumed that the Secretary will not offer paid diversion in succeeding years, and formula loan rate reductions are assumed to proceed at 5 percent per year for wheat and corn. The FSA85 authorizes the Secretary, within limits, to reduce the loan rates below those mandated. The policy parameters of Table 1 reflect these assumptions. Possible impacts of the Gramm-Rudman-Hollings legislation (except for dairy) are, however, not reflected in the program parameters or analyses. This legislation would reduce payment levels to program participants by about 10 to 30 percent, depending on the year.

Economic Projections for the Evaluation Period

Production levels and net exports of major competitors are conditioned by domestic agricultural programs and the performance of world economies. Likewise excess demands of major importers are driven by domestic agricultural policies and levels of economic activity. Values of the variables characterizing economic conditions and terms of trade in international commodity markets are from drawn Wharton Econometrics. These economic projections are summarized in Table 2. Generally, the projections indicate moderate rates of growth, similar to those experienced recently for the U.S. and foreign economies. Highlights of these projections are:

- Real growth in United States GNP increasing from 2.5 percent in 1985 to a high of 3.5 in 1987, and then declining.
- Inflation at 3.5 to 5.3 percent, higher in the later years.
- Civilian unemployment for the U.S. dropping from 7.3 percent in 1986 to 6.6 percent by 1989.
- Short-term interest falling to 6.6 percent in 1986 but recovering in 1987 and steadily increasing to 8.2 percent by 1989.
- The U.S. dollar depreciating rather sharply by 11.3 percent in 1986, 4.7 percent in 1987, then more moderately in later years.

Table 2. Domestic and Foreign Economic Projections

Conditioning Assumptions	1985	1986	1987	1988	1989
United States					
Real GNP (% change)	2.5	2.6	3.5	3.0	2.9
GNP Deflator (% change)	3.5	3.3	4.1	4.2	5.1
Civilian Unemployment Rate (%)	7.3	7.3	6.8	6.8	6.6
3-Month T. Bill Rate (%)	7.5	6.6	7.1	7.7	8.2
Moody's AAA Corporate Bond Rate (%)	11.4	9.6	9.6	9.8	10.3
Federal Deficit (Bil. $)	-$190.5	-$172.4	-$142.6	-$126.1	-$116.7
Foreign/Domestic					
Foreign Currency/ Dollar (% change)*	4.0	-11.3	-4.7	-4.2	-3.3
Real GNP (% change)					
Africa	1.6	2.8	3.3	3.7	2.9
Latin America	2.3	1.7	3.5	3.9	3.9
Pacific Basin	3.5	3.6	5.7	5.4	5.4
Europe	2.3	2.1	2.2	2.3	2.5
Centrally Planned	5.0	3.3	3.2	3.3	3.3

SOURCES: Wharton Econometric Forecasting Associates, Long-Term Forecast and World Economic Outlook, December 1985.

*Based on the average exchange rates for the calendar year, which was higher for 1985 than 1984 even though the dollar depreciated substantially during 1985.

- Annual growth in real gross domestic product of 2.8 to 3.7 for Africa, 2.3 to 3.8 percent in Latin America, 3.5 to 5.4 percent in the Pacific Basin, 2.1 to 2.5 percent in Europe, and 3.3 percent in the Centrally Planned Economies during the evaluation period.

Critical to these economic projections is a presumed decline of the U.S. budget deficit from 190.5 billion in 1986 to 116.7 billion in 1989. The budget deficit and the macroeconomic policies that cause it are responsible, in part, for the high real interest rate and the relatively slow, but steady, growth of the U.S. economy. The exchange rate falls due to lower real interest rates and the presumed upturn in foreign economies. For the world economy, a medium growth path is assumed. However, the Pacific Basin is projected to grow at a rapid rate compared with 1985 and with countries in other regions of the world. Africa is projected to rebound from the depressed current economic condition and achieve annual growth of 3 percent or more. Of course, these conditioning macroeconomic assumptions would be altered by the Gramm-Rudman-Hollings legislation, especially after 1986.

Analysis of Program for Crops and Livestock

The analysis of the FSA85 is based the policy parameters in Table 1 and the domestic and the foreign projections summarized in Table 2. The crops analysis is for crop years 1986/87 through 1988/90. The livestock analysis is for calendar years 1985 through 1989. Projected results for the major program crops are reviewed first, followed by key components of the livestock sector, excluding dairy.

Wheat (Table 3)

- A 22.5 percent acreage reduction program (ARP) with a 2.5 percent paid diversion is introduced for 1986/87. This is followed by a 27.5 percent ARP for 1987/88 and a 30 percent ARP in 1988/89, both with no paid diversion. Congress required the 2.5 percent paid diversion in 1986/87 with an optional additional 10 percent for winter wheat.

- Program participation is estimated to range between 81 and 85 percent, increasing as farm financial conditions deteriorate. Planted acreage falls from 72.1 million in 1986/87 to a low of 62.0 million in 1988/89.

- Wheat land rental contracts in the long term conservation reserve (LTCR) increase from 2.8 million acres in 1986/87 to 13.7 million in 1988/89.

- Domestic demand for wheat remains nearly constant during the first three program years, while exports increase by approximately 42 percent from the low 1985/86 level. Normal weather in other countries is assumed. Export gains are associated with the lower market prices, moderate world economic growth and special export incentives in the FSA85.

Table 3. Wheat Program Parameters, Supply and Use, Prices, and Government Cost for the Food Security Act of 1985

Variable/Year	85/86	86/87	87/88	88/89
Base Acreage (mil)	93.3	91.3	91.3	91.3
LTCR Acreage (mil)	0.0	2.8	8.2	13.7
ARP (percent)	20.0	22.5	27.5	30.0
Paid Diver. (percent)	10.0	2.5/10[a]	0.0	0.0
Participation (percent)	74.0	81.0	83.0	85.0
Planted Acreage (mil)	75.8	72.1	68.4	62.0
Harvested Acreage (mil)	64.6	64.0	60.9	55.2
Yield (bu/acre)	37.4	37.8	38.2	38.7
Base Yield (bu/acre)	36.3	37.1	37.1	38.3
Production (mil bu)	2,419	2,422	2,328	2,133
Domestic Use (mil bu)	1,101	1,156	1,044	1,073
Exports (mil bu)	890	1,061	1,165	1,266
Ending Stocks (mil bu)	1,857	2,065	2,185	1,981
CCC Owned (mil bu)	674	753	971	1,012
Farmer Resr. (mil bu)	716	609	428	235
Under Loan (mil bu)	403	525	413	309
"Free" Stocks (mil bu)	64	178	373	425
Prices ($/bu)				
Farm Price	$3.00	$2.47	$2.39	$2.27
Loan Rate	$3.30	$2.40	$2.28	$2.17
Target Price	$4.38	$4.38	$4.38	$4.29
Return/Acre ($/acre)*				
Non Participant	$51.83	$18.82	$13.73	$6.38
Participants	$67.97	$64.23	$61.94	$63.07

Government Cost**	FY1986	FY1987	FY1988	FY1989
Direct Payments (mil $)	$2,076.7	$3,930.0	$4,555.5	$4,676.0
Govt. Outlays (mil $)	$3,870.1	$4,728.4	$5,947.1	$4,959.1
PIK Quantities (mil bu)	0.0	198.0	167.0	237.0

*Returns per acre are net revenues over variable production cost and do not include land cost.

**Direct payments represent cash paid to producers in connection with a particular crop. Outlays include price support loans and other program costs. PIK quantities are volume grain paid out to farmers in lieu of cash.

[a]10 percent paid diversion optional for winter wheat producers

- Ending stocks remain at about 2.0 billion bushels during the evaluation period, with the first stock reductions occurring in the 1988/89 crop year. Lower crop production due to poor weather at home or abroad, or accelerated contracting under the LTCR, could reduce stocks but would not be likely to increase prices.

- Wheat prices at the farm level fall sharply in 1986/87 and remain low for the evaluation period. The lowest farm prices are $2.27 per bushel in 1988/89.

- Since government payments are large, returns to program participants are substantially above those for nonparticipants over the forecast period. Only producers in special circumstances are likely to opt out of the wheat program.

- Government costs, excluding PIK, range from $4.7 billion in 1986/87 to around $5.9 billion in 1987/88, largely due to deficiency payments.

- PIK payments for export subsidies, advanced deficiency payments, and paid diversions add between 237 and 167 million bushels to available market supply. The value of these payments at market prices ranges from $400-540 million.

- If the stock buildup cannot be contained by 1988/89, it may be necessary to idle even more acreage, to increase export subsidies, or to use discretionary authority to clear annual production using a marketing loan.

- The provision permitting grain farmers to plant only 50 percent of the permitted acreage and collect payments as if they had planted 90 percent is not implemented.

Corn (Table 4)

- The 17.5 percent acreage reduction program (ARP) and a 2.5 percent paid diversion in 1986/87 is followed by ARPs of 20 percent in 1987/88 and 1988/90.

- Program participation ranges between 75 and 82 percent, with planted area declining from 75.5 million acres in 1986/87 to 73.5 in 1988/89. The long-term conservation reserve increases from 1.0 million acres in 1986/87 to 3.3 million by 1988/89.

- Domestic use increases moderately, from 5.7 billion bushels in 1986/87 to 5.9 billion in 1988/89. Slow growth rates of the livestock herd and of the corn sweetener demand are offset by increases in gasohol production in the latter two crop years.

- Exports increase by only 15 percent over the period 1985/86-1988/89. Corn production increases abroad but at a reduced rate. The growth in feed grain exports reflects a slightly increased U.S. market share in a slowly growing total market. The grain export market is nearly all

Table 4. Corn Program Parameters, Supply and Use, Prices, and Government Cost for the Food Security Act of 1985

Variable/Year	85/86	86/87	87/88	88/89
Base Acreage (mil)	83.3	83.3	83.3	83.3
LTCR Acreage (mil)	0.0	1.0	2.2	3.3
ARP (percent)	10.0	17.5	20.0	20.0
Paid Diver. (percent)	0.0	2.5	0.0	0.0
Participation (percent)	71.0	75.0	80.0	82.0
Planted Acreage (mil)	83.2	75.5	74.5	73.5
Harvested Acreage (mil)	74.8	66.4	65.6	64.7
Yield (bu/acre)	116.6	114.0	115.0	116.0
Base Yield (bu/acre)	100.2	105.3	105.3	106.7
Production (mil bu)	8,716	7,572	7,541	7,504
Domestic Use (mil bu)	5,378	5,674	5,782	5,929
Exports (mil bu)	1,626	1,732	1,794	1,869
Ending Stocks(mil bu)	3,090	3,257	3,223	2,930
CCC Owned (mil bu)	616	1,416	1,391	1,240
Farmer Resr. (mil bu)	736	713	491	288
Under Loan (mil bu)	1,513	232	224	120
"Free" Stocks (mil bu)	226	907	1,117	1,282
Prices ($/bu)				
Farm Price	$2.47	$1.99	$1.94	$1.96
Loan Rate	$2.55	$1.92	$1.82	$1.73
Target Price	$3.03	$3.03	$3.03	$2.97
Return/Acre ($/acre)*				
Non Participant	$130.81	$60.88	$51.95	$48.95
Participants	$167.15	$148.58	$145.04	$137.83

Government Cost**	FY1986	FY1987	FY1988	FY1989
Direct Payments (mil $)	$4,786.0	$5,932.0	$6,325.0	$6,307.0
Govt. Outlays (mil $)	$8,016.0	$5,858.0	$6,829.9	$6,409.1
PIK Quantities (mil bu)	0.0	228.8	161.4	177.4

*Returns per acre are net revenues over variable production cost and do not include land cost.

**See Table 3

in commercial sales, with sales to the USSR at 301 million bushels per year.

- Ending stocks average about 3.0 billion bushels annually, with grain owned or controlled by CCC at high levels. If corn yields exceed expectations, or if exports fail to increase, it may be necessary to resort to the marketing loan, to accelerate and expand the LTCR, or to implement an additional paid diversion.

- With loan rates down from $2.55 per bushel in 1985/86 to a low of $1.73 in 1988/89 and with continuing surpluses, market prices are expected to fall from the $2.47 per bushel in 1985/86 to a low of $1.94 by 1987/88. It will be difficult to move market prices above the loan at the projected stock levels.

- Returns over variable costs are about two times as high for program participants as for nonparticipants.

- Government costs range from $5.9 billion in 1986/87 to $6.8 billion in 1987/88. Total direct producer payments average above $6.0 billion annually for the three-year period.

Soybeans (Table 5)

- Soybean planted acreage averages about 63 million acres through 1988/89. This low acreage reflects the absence of target prices and deficiency payments available as for other program crops. The acreage from land outside the farm program that moves into soybean production counters this impact. A LTCR area of 1.2 million acres of soybean land in 1986/87, 2.5 million in 1987/88, and 3.7 million in 1988/89 also curtails expansion of production.

- Domestic utilization increases approximately 10 percent, reflecting moderate growth in the livestock industry. Exports increase approximately 17 percent for the period, in response to lower prices, devaluation of the U.S. dollar, moderate demand expansion in foreign markets, and a slow growth in market share for U.S. beans.

- The loan rate drops from $5.02 per bushel in 1985/86 to $4.77 in 1986/87 and remains at that level. There will be strong pressure on the Secretary not to drop the loan rate further, since soybean producers have no deficiency payments. Market prices drop from $5.19 in 1985/86 to a low of $4.86 in 1987/88 and then increase modestly to $5.05 per bushel in 1988/89.

- Returns over variable costs fall from $103 per acre in 1985/86 to a low of $75 in 1986/87.

- CCC-owned stocks decline from 225 million bushels in 1986/87 to 140 million by 1988/89, with government costs ranging from a high of about $934 million in 1986/87 to a positive balance of about $343 million by 1988/89. The positive balances in the last two years are from the

Table 5. Soybeans Program Parameters, Supply and Use, Prices, and Government Cost for the Food Security Act of 1985

Variable/Year	85/86	86/87	87/88	88/89
LTCR Acreage (mil)	0.0	1.2	2.5	3.7
Planted Acreage (mil)	63.2	63.0	62.0	63.0
Harvested Acreage (mil)	61.4	62.0	61.0	62.0
Yield (bu/acre)	34.2	31.5	31.9	32.0
Production (mil. bu.)	2,100	1,951	1,946	1,989
Domestic Use (mil bu)	1,153	1,209	1,243	1,270
Exports (mil bu)	725	750	793	849
Ending Stocks (mil bu)	539	532	442	312
CCC Owned (mil bu)	150	225	175	40
"Free" Stocks (mil bu)	389	307	267	272
Prices ($/bu)				
Farm Price	$5.19	$4.86	$4.99	$5.05
Loan Rate	5.02	4.77	4.77	4.77
Return/Acre ($/acre)*	102.72	74.61	78.27	77.90
	FY1986	FY1987	FY1988	FY1989
Government Cost**				
Direct Payments (mil $)	$0.0	$132.0	$191.0	$232.0
Govt. Outlays (mil $)	$934.5	$312.5	($31.2)	($342.9)
PIK Quantities (mil bu)	$0.0	7.9	16.0	24.7

*Returns per acre are net revenues over variable production cost and do not include land cost.

**See Table 3

sale of government-owned stocks. An Export PIK is made in fiscal years 1987 and 1988.

- Lacking target prices and deficiency payments, income to soybean producers declines more than that for other major producers of program commodities. Reduced market prices and harvested areas decrease annual producer revenues by $1.5 to $2.0 billion per year, compared to the recent past.

- Direct payments of $132 million in FY1986 to $232 million in FY1989 reflect the cost associated with the long-term conservation reserve.

Rice (Table 6)

- High payments relative to market prices ensure record program participation, bringing the planted acres down to 2.28 million during the three years. A 35 percent ARP is implemented annually.

- The loan rate declines from $8 per hundredweight in 1985/86 to a low of $6.50 in 1988/89. Market prices fall sharply from $6.32 per hundredweight in 1985/86 to a low of $4.32 in 1986/87 then rise to $5.18 by 1988/89.

- The marketing loan for rice permits loan repayment at the world market price level. This allows U.S. prices to fall below the loan level and ensures competitive U.S. prices in the export market.

- Exports are projected to increase 31 percent over three years with the largest increment coming with the initial price decline in 1986/87. Thailand is the major competitor with the U.S. in the rice export market. U.S. market prices in the $4 to $5 per hundredweight range will slow production increases in other countries and increase the U.S. trade share.

- Total domestic use increases due to lower prices from about 60 million hundredweight in 1985/86 to 66.5 million in 1988/89 or 11 percent.

- Ending stocks decline from 75.6 million hundredweight in 1985/86 to about 49 million hundredweight by 1988/89, reflecting rising exports, the acreage reduction, and the incentives for program participation.

- Government costs rise from $571 million in 1985/86 to over $1 billion per year in 1987/88 and 1988/89. Most of this cost is deficiency payments and the marketing loan subsidy.

Table 6. Rice Program Parameters, Supply and Use, Prices, and Government Cost for the Food Security Act of 1985

Variable/Year	85/86	86/87	87/88	88/89
Base Acreage (mil)	4.2	4.2	4.2	4.2
LTCR Acreage (mil)	0.0	0.0	0.0	0.0
ARP (percent)	20.0	35.0	35.0	35.0
Paid Diver. (percent)	15.0	0.0	0.0	0.0
Participation (percent)	82.0	97.0	97.0	97.0
Planted Acreage (mil)	2.47	2.28	2.28	2.28
Harvested Acreage (mil)	2.45	2.26	2.26	2.26
Yield (lbs/acre)	5,426	5,750	6,050	6,165
Base Yield (lbs/acre)	4,745	4,983	4,983	5,742
Production (mil. cwt)	132.8	130.0	136.7	139.3
Domestic Use (mil cwt)	60.0	63.5	65.8	66.5
Exports (mil cwt)	64.0	75.7	79.5	84.5
Ending Stocks (mil cwt)	75.6	67.3	59.8	49.1
CCC Owned (mil cwt)	4.0	0.0	0.0	0.0
"Free" Stocks (mil cwt)	71.6	67.3	59.8	49.1
Prices ($/cwt)				
Farm Price	$6.32	$4.32	$4.86	$5.18
Loan Rate	$8.00	$7.20	$6.84	$6.50
Target Price	$11.90	$11.90	$11.66	$11.30
Return/Acre ($/acre)*				
Non Participant	$180.83	$107.00	$142.51	$151.81
Participants	$256.45	$254.15	$264.11	$291.01

Government Cost**	FY1986	FY1987	FY1988	FY1989
Direct Payments (mil $)	$620.6	$918.7	$1,019.2	$1,060.5
Govt. Outlays (mil $)	$571.0	$979.8	$1,048.1	$1,136.7
PIK Quantities (mil cwt)	48.0	7.5	2.5	5.5

*Returns per acre are net revenues over variable production cost and do not include land cost.

**See Table 3

Cotton (Table 7)

- Planted area declines from 10.74 million in 1985/86 to a low of 9.8 million in 1986/87 then increases to 10.0 million by 1988/89. The planted area figures reflect the 25 percent ARP and participation rates of 95 to 98 percent in the government program. The LTCR acreage for cotton increases from .4 million in 1986/87 to 1.2 million 1988/89.

- Domestic use increases about 13 percent from 1985/86 to 1988/89, reflecting the farm price decline. Exports increase and by 1988/89 nearly reach the 1984/85 level of 6.22 million bales. The lower U.S. prices continue to pressure foreign competitors and lead to a larger U.S. trade share.

- Ending stocks decline from about 9 million bales in 1985/86 to a low of 7 million by 1988/89, with a significant portion in the CCC each year.

- Loan rates fall from $0.57 per pound in 1985/86 to a low of $0.50 in 1988/89. Market prices average 36-40 cents per pound, substantially below the loan rate, until 1988/89. Prices below loan levels result from implementation of the marketing loan.

- Government costs range from a high of $3.5 billion in 1986 to a low of $1.5 billion by 1989, with direct payments to producers averaging about $1.9 billion annually.

Livestock (Table 8)

- Total per capita consumption of beef, pork, and poultry declines from 194.6 pounds per capita in 1985 to 192.1 pounds per capita in 1989. Initially, this reduction is due to the long-term down trend in red meat consumption and to higher prices reflecting breeding herd increases in response to lower feed prices. However, in 1989, the downward trend per capita consumption of red meat is moderated by lower retail prices. Still the slow increase of real income growth for the U.S. plus the apparent negative trend in red meat consumption continue to pressure beef and pork prices.

- Total per capita consumer expenditures for beef, pork, and poultry are nearly constant ranging between $332.08 in 1984 and $328.93 in 1989.

- Commercial beef production falls from 23.5 billion pounds in 1985 to 21.75 billion in 1989. Correspondingly, per capita consumption levels drop from 78 pounds in 1985 to 71 pounds in 1989.

- For Omaha beef, 900-1100 in weight, prices increase from $58.31 per hundredweight in 1985 to high of $63.00 in 1987 and then fall to $58.00 in 1989.

- Chicken production increases from about 13.6 billion pounds in 1985 to a high of 15.2 billion in 1990. The increased chicken consumption

Table 7. Cotton Program Parameters, Supply and Use, Prices, and Government Cost for the Food Security Act of 1985

Variable/Year	85/86	86/87	87/88	88/89
Base Acreage (mil)	15.80	15.80	15.80	15.80
LTCR Acreage (mil)	0.0	0.4	0.8	1.2
ARP (percent)	20.0	25.0	25.0	25.0
Paid Diver. (percent)	10.0	0.0	0.0	0.0
Participation (percent)	83.0	95.0	98.0	95.0
Planted Acreage (mil)	10.74	9.80	9.90	10.00
Harvested Acreage (mil)	10.31	9.21	9.31	9.40
Yield (lb/acre)	630	574	584	594
Base Yield (lb/acre)	529	574	574	579
Production (mil. bales)	13.53	11.02	11.33	11.64
Domestic Use (mil bales)	6.00	6.40	6.60	6.80
Exports (mil bales)	2.80	5.00	5.50	6.00
Ending Stocks (mil bales)	8.97	8.71	8.06	7.03
CCC Owned (mil bales)	1.30	6.01	5.70	4.40
Under Loan (mil bales)	0.0	0.20	0.0	0.20
"Free" Stocks (mil bales)	7.67	2.50	2.36	2.43
Prices ($/lb)				
Farm Price	$0.54	$0.35	$0.39	$0.43
Loan Rate	$0.57	$0.55	$0.52	$0.50
Target Price	$0.81	$0.81	$0.79	$0.77
Return/Acre ($/acre)*				
Non Participant	$64.18	($54.76)	($38.44)	($26.01)
Participants	$171.67	$143.65	$133.39	$122.08

Government Cost**	FY1986	FY1987	FY1988	FY1989
Direct Payments (mil $)	$1,414.2	$2,172.0	$1,898.0	$1,739.0
Govt. Outlays (mil $)	$3,056.2	$3,504.5	$1,924.0	$1,492.8
PIK Quantities (bales)	0.0	4,800.0	8,400.0	11,400.0

*Returns per acre are net revenues over variable production cost and do not include land cost.

**See Table 3

Table 8. FAPRI analysis projections for beef, chicken, and pork under the Food Security Act of 1985

Commodity and Variable	1984	1985	1986	1987	1988	1989
Beef						
Omaha Price ($/cwt)	65.34	58.31	61.00	63.00	61.00	58.00
Commercial Production (million lbs)	23,698	23,548	22,500	21,250	21,350	21,750
Per Capita Consumption (lbs retail weight)	78.60	78.00	74.50	70.00	70.00	71.00
Retail Price ($/lb)	2.40	2.33	2.50	2.61	2.61	2.56
Expenditures ($/per capita)	188.59	180.96	184.88	182.70	182.70	181.76
Chicken						
Wholesale Price, 12 City ($/lb)	0.55	0.52	0.49	0.47	0.45	0.43
Production, Broiler (million lbs)	13,011	13,614	14,200	14,600	14,900	15,200
Per Capita Consumption (lbs retail weight)	53.00	55.10	57.00	58.20	59.00	59.80
Retail Price ($/lb)	0.81	0.84	0.79	0.76	0.74	0.71
Expenditures ($/per capita)	42.92	45.95	42.82	41.95	40.92	39.19
Pork						
7 Market Price ($/cwt)	48.69	44.84	42.50	38.00	36.00	40.00
Commercial Production (million lbs)	14,812	14,721	14,700	15,700	16,300	15,500
Per Capita Consumption (lbs retail weight)	61.70	61.50	61.00	65.00	66.50	63.10
Retail Price ($/lb)	1.63	1.62	1.65	1.55	1.53	1.67
Expenditures ($/per capita)	100.57	99.63	100.44	102.70	104.40	104.75
Total Expenditures ($/per capita)	332.08	326.87	330.35	329.63	330.76	328.93
Total Per Capita Consumption	193.30	194.60	192.50	193.20	195.50	192.10

reflects retail demand trends in red meat consumption and lower retail prices due to lower feed costs.

- Per capita chicken consumption increases from 55.1 pounds in 1985 to 59.8 in 1989. Estimated prices to range from a high of $0.52 per pound in 1985 to a low of $0.43 in 1989.

- Estimated pork production increases from 14.7 billion pounds in 1985 to a high of 16.3 in 1988. Producer prices reflect the production cycle with a high of $44.83 per hundred in 1985 and a low of $36.00 in 1988.

- Per capita pork consumption increases to 66.5 pounds per capita by 1988 and then falls to around 63.1 pounds by 1989.

Dairy

Dairy is treated separately because it is the major livestock commodity covered by the FSA85. In general, U.S. dairy production remains seriously in excess of the demand for milk and processed dairy products. The 1983/84 dairy diversion program provided a brief respite from the surplus of milk production, but was followed by sharp increases in milk production in 1985. Specifically, by the end of 1985, monthly production was about 10 percent above the year earlier level. This trend will continue through early 1986, until the effects of the "whole herd buyout" are felt.

The dairy title in the FSA85 includes a mixture of programs that will reduce and increase milk production at the same time and provides broad discretion for the Secretary. For the results presented, incorporate the following FSA85 provisions and assumptions on actions of the Secretary:

- The milk support level is frozen at $11.60/cwt. through 1986. A 4.3 percent cut under the Gramm-Rudman-Hollings legislation will reduce the price to $11.10 by March 1986. Supports continue in 1988, 1989, and 1990 at $10.60, $10.10, and $9.60 per hundredweight, respectively (since surpluses are expected to exceed 5 billion pounds of milk each year).

- An assessment of 40 cents per hundredweight begins in April 1986, reducing the effective support price by an equal amount. The assessment falls to 25 cents per hundredweight by January 1987.

- Higher premiums required by law in federal order markets, effective in early 1986, will offset the support reductions in many regions, giving the support price a limited impact. With sharply lower feed costs, the incentive to expand milk production will continue.

- USDA must "buyout" of production, beginning in April 1986, dairy herds with a least 12 billion pounds of output over the next 18 months (5.5 percent of annual production). The buyout is also authorized for 1988 and 1990, but the assessment to fund it ends in September 1987.

- The buyout program will be operated for 18 months only, from April 1986. Funds committed will be roughly the $600,000 assessment

receipts, which at $6 per hundredweight will eliminate milk production on farms that would have generated about 10 billion pounds of milk over 18 months.

The dairy program results for the FSA85 in Table 9 are heavily influenced by the large excess capacity and by the high profitability of milk production. Low feed costs and small declines in milk price supports assure this profitability. Large increases in productivity are expected, as the least efficient producers are "bought out."

- Corn and soybean prices yield a milk/feed ratio in 1986 and 1987 equal to or above the profitable 1.50 level of late 1985.

- Milk production declines only slightly in 1986 and 1987 in response to the FSA85 provisions.

- Production is reduced by only 2 to 3 billion pounds in 1986 by the buyout. Those producers continuing in dairy will increase production by an additional 1 to 2 billion pounds as feed costs fall.

- Similar results are expected in the 1986 and 1987; 5 to 6 billion pounds of production contracted in the buyout offset by a 2 to 3 billion pounds increase from producers remaining in production.

Sector Performance

Two important indicators of agricultural sector performance are summarized in this section: value of exports and farm income and government costs. Generally, the results show that the FSA85 has limited potential for improving the performance of the U.S. agricultural sector over that of the recent past if external conditions are not significantly altered.

Value of Exports (Table 10)

- The price reductions during the evaluation period result in only modest increases in export volume. Short-term export elasticities reflected by these values are in the range of .5 for most commodities.

- 1986/87 crop year export revenues decline with the lower prices and a slow increase in export volume. Generally, there is moderate export volume expansion across-the-board as market prices decrease by approximately 20 percent.

- Export revenues increase by 1988/89 when export volumes strengthen at the lower and stable commodity prices.

Farm Income (Table 11)

- Net farm income declines during the first three years of the FSA85, from $25.7 billion in 1985 to $20.1 billion in 1989. This reduction

Table 9. Indicators of dairy industry performance under the Food Security Act of 1985.

Fiscal Year	Marketing Year	Milk Production (bil. lbs.)	Percent Marketing to CCC	Net Program Cost (bil. $)
1985	1984/85	139.9	8.4	$2.20
1986	1985/86(original)	148.0	12.0	2.40
1986	1985/86(revised)	145.0	11.0	2.20
1987	1986/87	147.0	11.5	2.20
1988	1987-88	150-152	12.0	2.20-2.30
1989	1988-89	152-154	12.0	2.10-2.20

SOURCE: John Schnittker, Schnittker Associates

Table 10. Annual Value of U.S. Agricultural Exports for Selected Commodities under the Food Security Act of 1985

Crop/Year	83/84	84/85	85/86	86/87	87/88	88/89
			Million Dollars			
Corn	7022	5918	4857	4149	4191	4418
Wheat	6497	5707	3137	3078	3273	3380
Soybeans	5714	3870	4150	4019	4365	4731
Soymeal	1203	876	780	921	986	1049
Rice	897	667	543	426	474	553
Cotton	2395	1952	827	938	1146	1376
Total	23728	18990	14294	13531	14435	15507

Based on July-June year and as reported in Agricultural Statistics. 1983/84 is actual, other years are estimated.

Table 11. Projections for Farm Income and Government Payments under the Food Security Act of 1985

Variable/Year	1984	1985	1986	1987	1988	1989
	----------Billions of Dollars----------					
Cash Receipts from Marketings						
Crops	69.5	69.9	63.6	55.1	54.4	54.7
Livestock	72.7	68.7	68.6	65.6	64.3	65.3
Direct Government Payments and Subsidies*	8.0	8.0	10.7	14.2	15.0	14.4
Total Farm Cash Receipts	153.2	149.6	145.9	138.0	136.7	137.5
Net Farm Income	34.5	25.7	23.5	22.4	19.4	20.1
Net Farm Income (1972 $)	11.1	8.2	7.3	6.7	5.6	5.6

*Program crops

of farm income will exacerbate the farm financial situation.

- Direct government payments for the major program commodities increase from about $8 billion in 1985 to around $14.4 billion by 1990. These cost increases reflect high farm participation rates in all the commodity programs and large deficiency payments.

- Total farm cash receipts decrease from $149.6 billion in 1985 to a low of $135.7 billion in 1988 then move up to $137.5 billion by 1989. A part of this decrease is associated with decreased livestock prices and inventory value adjustments.

- Even with high average annual government cost, net farm income in 1972 dollars decreases by approximately $2.6 billion from 1985 through 1989, to $5.6 billion in 1972 dollars.

Government Costs (Table 12)

- Government payments and subsidies decrease from $15.8 billion in fiscal year 1986 to $13.9 billion by 1989. However, direct payments to producers increase substantially to nearly $15 billion in 1988.

- Excess capacity in the crop sector, increased producer participation and market prices near loan rates result in high government payments throughout the evaluation period.

- Total government outlays during the 1987, 1988, and 1989 fiscal years are near 1986 levels, about 20.5 billion and only begin to fall in 1988 and 1989.

FSA85 in Perspective

A principal objective of FSA85 evaluation is to provide a general appreciation for the likely impacts on program commodity markets, industry performance, and government involvement or cost. The evaluation has been conducted for only three of the years covered by the FSA85. A major reason for limiting the evaluation period was the discretion available to the Secretary and the prospect of alterations in program parameters due to the Gramm-Rudman-Hollings legislation. To provide added perspective for the three year results, selected general performance indicators for the 1973, 1977, and 1981 Farm Bills are summarized and presented with the FAPRI analysis results.

Major Program Crops

For each of the major program crops--wheat, corn, soybeans, rice, and cotton--two summary figures were prepared. These summary figures contain "potential production," "potential supply," actual production, domestic consumption, stocks, and exports. For the 1973, 1977, and 1981 Farm Bills, four-year averages have been used as representative values. The two values in the figures that involve special assumptions are those for potential production and potential supply. Potential production was calculated using acreage base, participation, and reduced acreage conservation reserve and paid diversion values. Specifically, the simple formula was: base less

Table 12. Government payments and other costs for wheat, feedgrains, rice, cotton, and soybeans, under the Food Security Act of 1985

	Fiscal Years			
	1986	1987	1988	1989
	----------Millions of Dollars----------			
Loans	$12,956	$ 6,225	$ 3,800	$ 3,019
Storage & Handling	607	1,272	1,295	1,337
Transportation	49	14	13	17
Processing	7	7	7	7
Prod. Storage Payments	393	445	309	200
Loan Coll. Payments	50	50	50	50
Deficiency Payments	7,131	12,543	13,322	13,020
Easement	0	715	984	1,274
Diversion	578	0	0	0
TOTAL	$21,771	$21,271	$19,780	$18,924
Receipts:				
Loans Repaid	$ 5,583	$ 4,227	$ 3,290	$ 2,908
Sales Proceeds	426	1,640	1,332	2,074
Misc.	6	6	8	11
TOTAL	$ 6,015	$ 5,873	$ 4,630	$ 4,993
Direct Payments to Producers	$10,712	$14,222	$14,950	$14,432
Net Outlays Support & Related	$15,756	$15,398	$15,150	$13,931
Net Dairy Costs*	2,200	2,200	2,250	2,150
Other Commodity Costs**	91	159	140	113
Export Activity Outlays**	468	605	665	799
SUBTOTAL Commodities	$18,515	$18,362	$18,205	$16,993
Other Non-Commodity Outlays**	452	430	433	570
Net Interest Outlays	1,851	1,836	1,821	1,699
TOTAL CCC Outlays	$20,818	$20,628	$20,459	$19,262

*Supplied by John Schnittker, Schnittker Associates

**Supplied by the Congressional Budget Office

conservation reserve, times the participation rate, times the sum of reduced acreage programs (ARP) and paid diversion (PD) percentages, plus the long term conservation reserve. This value approximates the land taken out of production by government supply control programs. This acreage was multiplied times 80 percent of the average yield (normal weather for 1986/87 to 1988/90) and added to actual production (or estimated) to compute potential production. Potential supply is simply potential production plus beginning stocks.

Results for wheat are provided in Figure 1. The top panel shows wheat production between 2 and 2.4 billion bushels during the period 74-77 through 1988/89, but potential production, the sum of production plus the potential output from idled acres, has increased from around 2 billion bushels to over 3 billion bushels. Potential production is about one-half again as high as actual production for wheat in 1988/89. Stocks of wheat have increased approximately 1 billion bushels or nearly doubled during the period indicated. Exports have declined since the 1977 Farm Bill years and domestic consumption has increased only modestly.

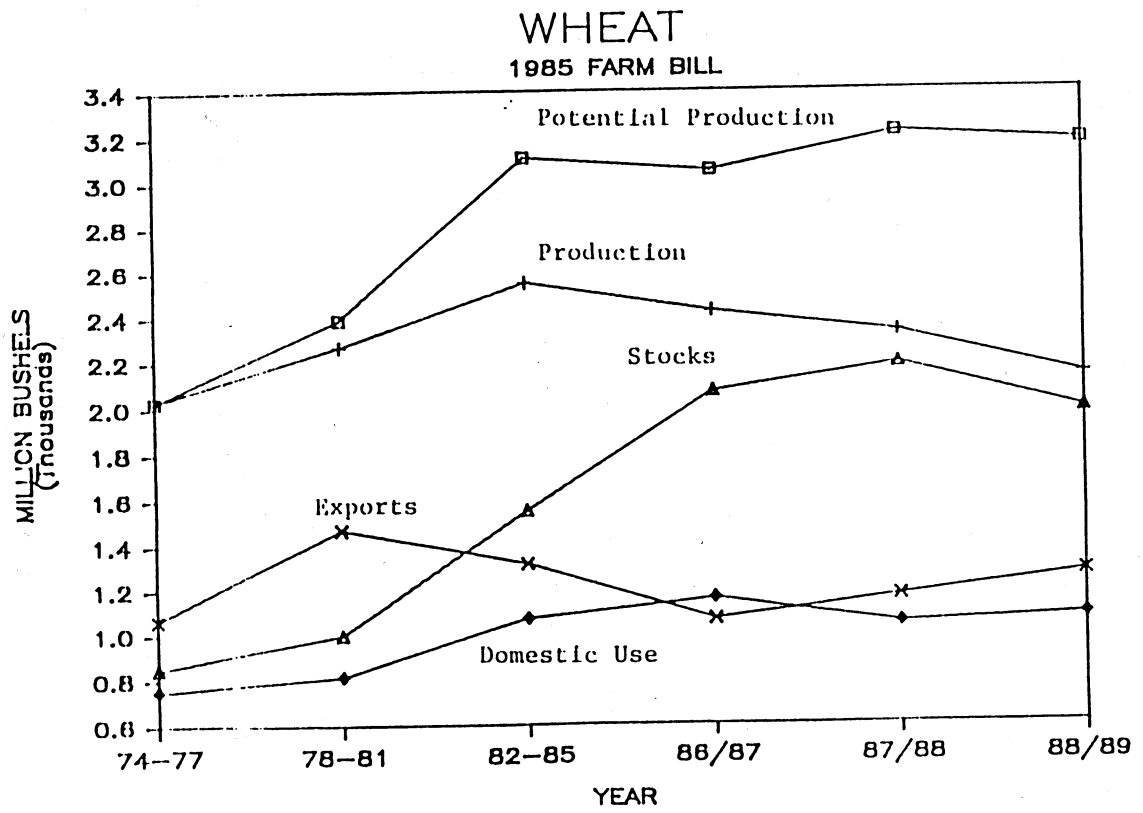
The critical information for the FSA85 and the wheat market situation is more evident from the bottom panel in Figure 1. Two indicators of capacity are plotted in percentages. By 1988/89, potential production for wheat is about 150 percent of actual production. When beginning stocks are added to potential production, the seriousness of the excess supply situation for wheat becomes more apparent. By crop year 1988/89, potential supply is approximately 250 percent of actual production. From the top panel, actual production in 1988/89 is nearly equal to exports plus domestic consumption, implying little of stocks.

Similar information to that for wheat is provided for corn in Figure 2. The excess capacity situation for corn is not as striking as for wheat. However, from the top panel, it is apparent that idle production acreage has increased substantially since the 1977 Farm Bill years as have stocks. Domestic exports remain slightly lower than during the 1977 Farm Bill years. Finally, there is a slow upward trend in domestic consumption, reaching an excess of 5 billion bushels by 1988/89. The bottom panel highlights the excess capacity condition. Idle production capacity is about 20 percent of actual production in 1988/89. In 1988/89, potential supply is about 160 percent of actual production. At projected production levels, corn stocks decline slowly.

For soybeans, the historical program impacts have been more balanced. This is likely related to the absence of target prices for soybeans. Still, the potential supply for soybeans increases during the three FSA85 crop years. If over the period 1974-77 through 1988/89, average stocks approximate what stocks "ought" to be, based on the assumption that the system is somehow rational, soybean stocks during the evaluation period for the FSA85 are higher than optimal.

The results for rice and cotton, Figures 4 and 5, are perhaps the most startling when the projections under the FSA85 for 1986/87 through 1988/89 are compared to four-year averages under the three previous Farm Bills. In both cases, large increases in potential production over actual production were initiated during the 1977 Farm Bill and increase through time.

Figure 1. Wheat supply, use, potential production, and potential supply; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-90 crop years.



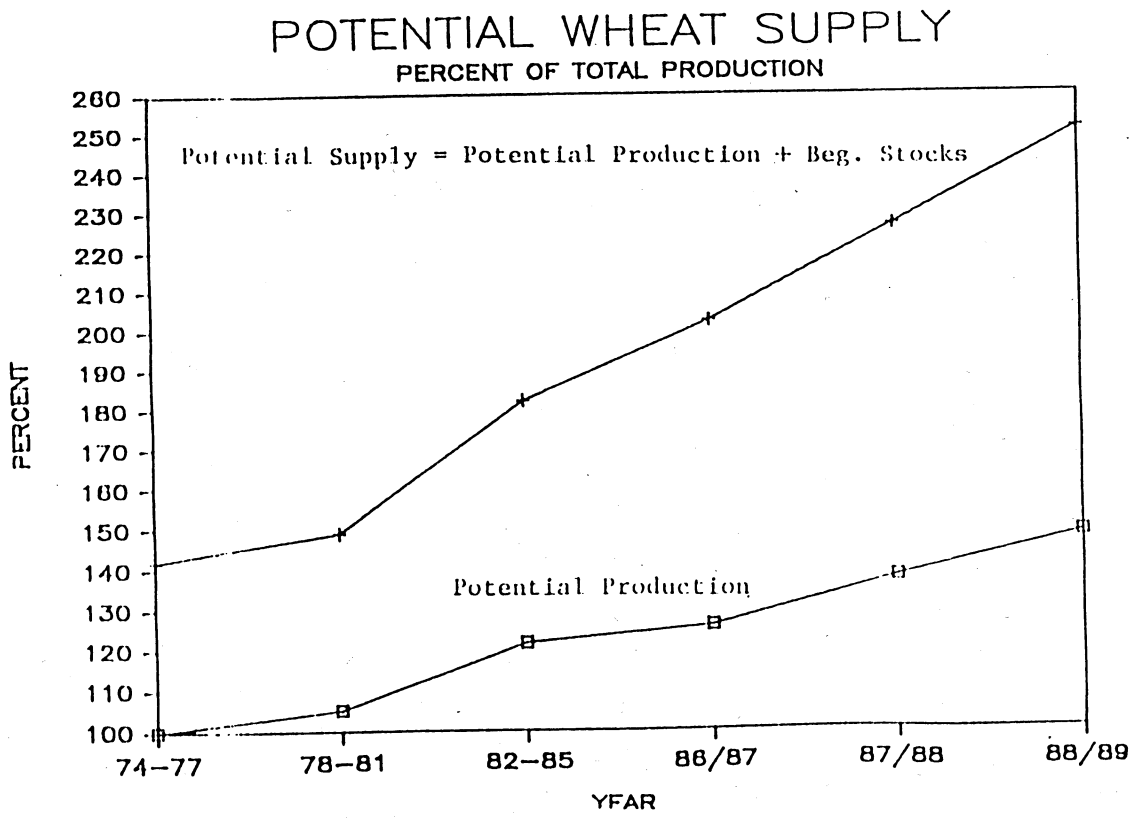
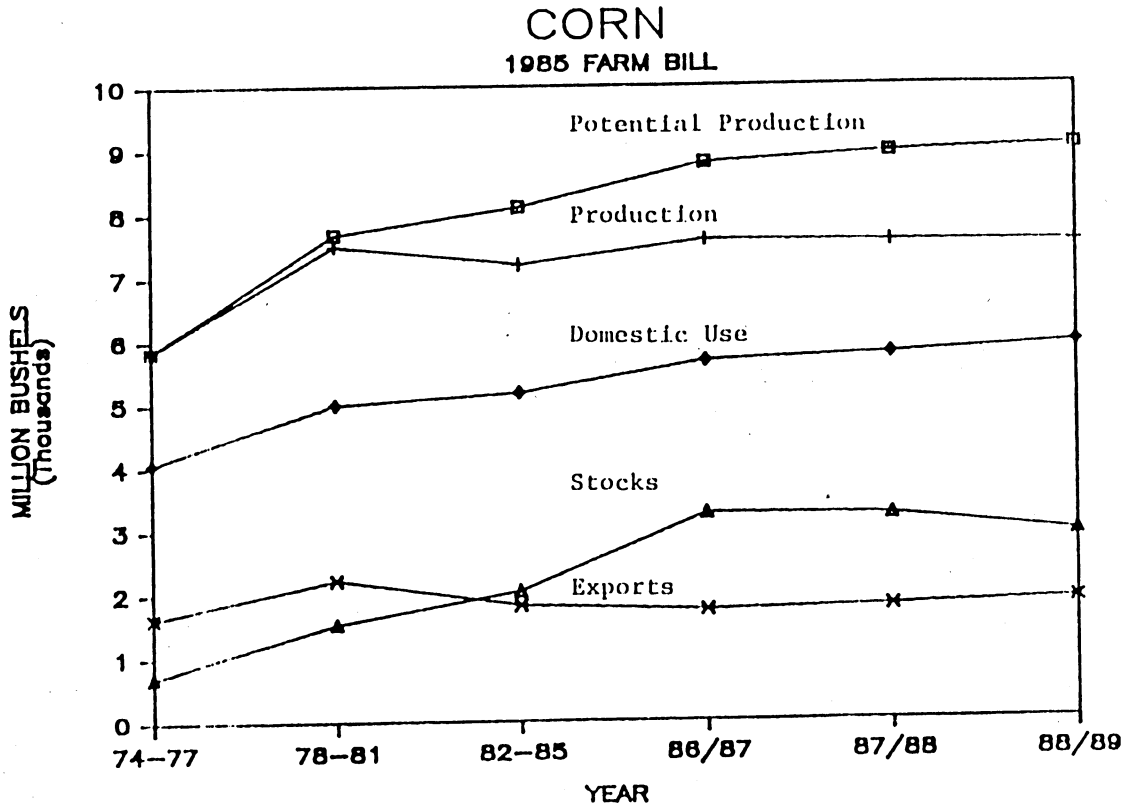


Figure 2. Corn supply, use, potential production, and potential supply; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-89 crop years.



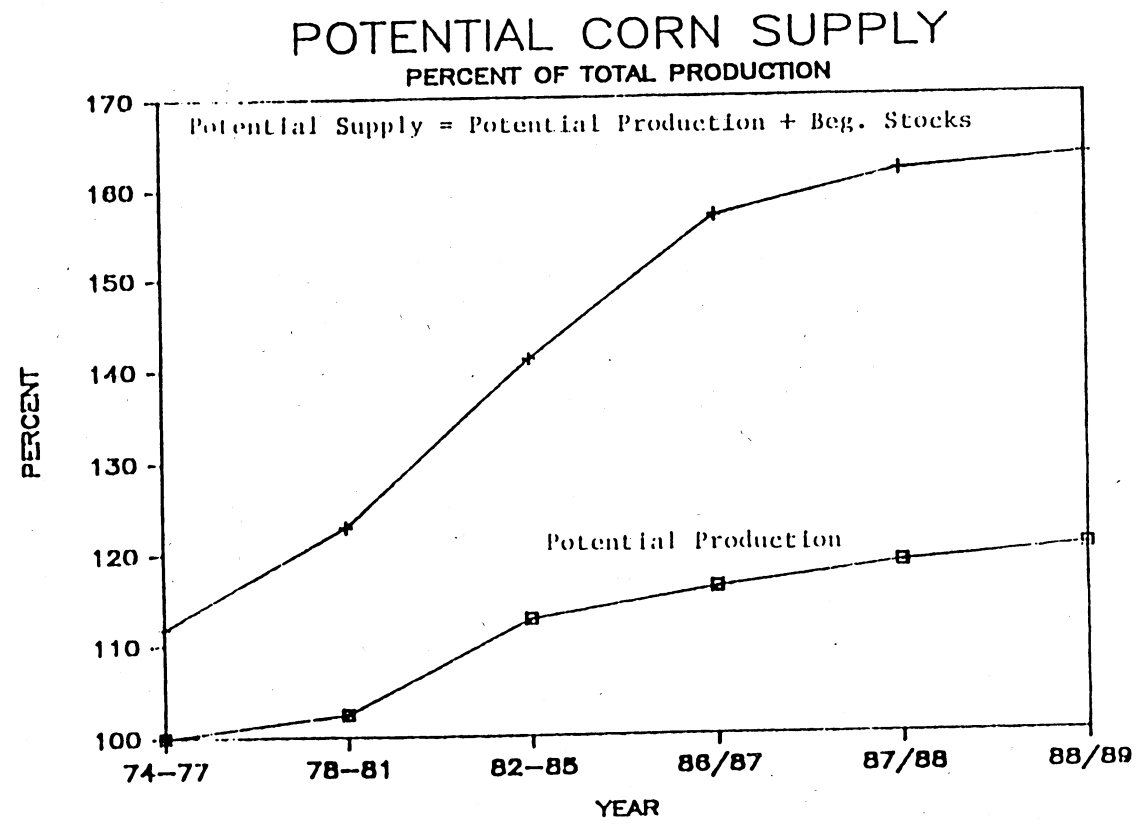
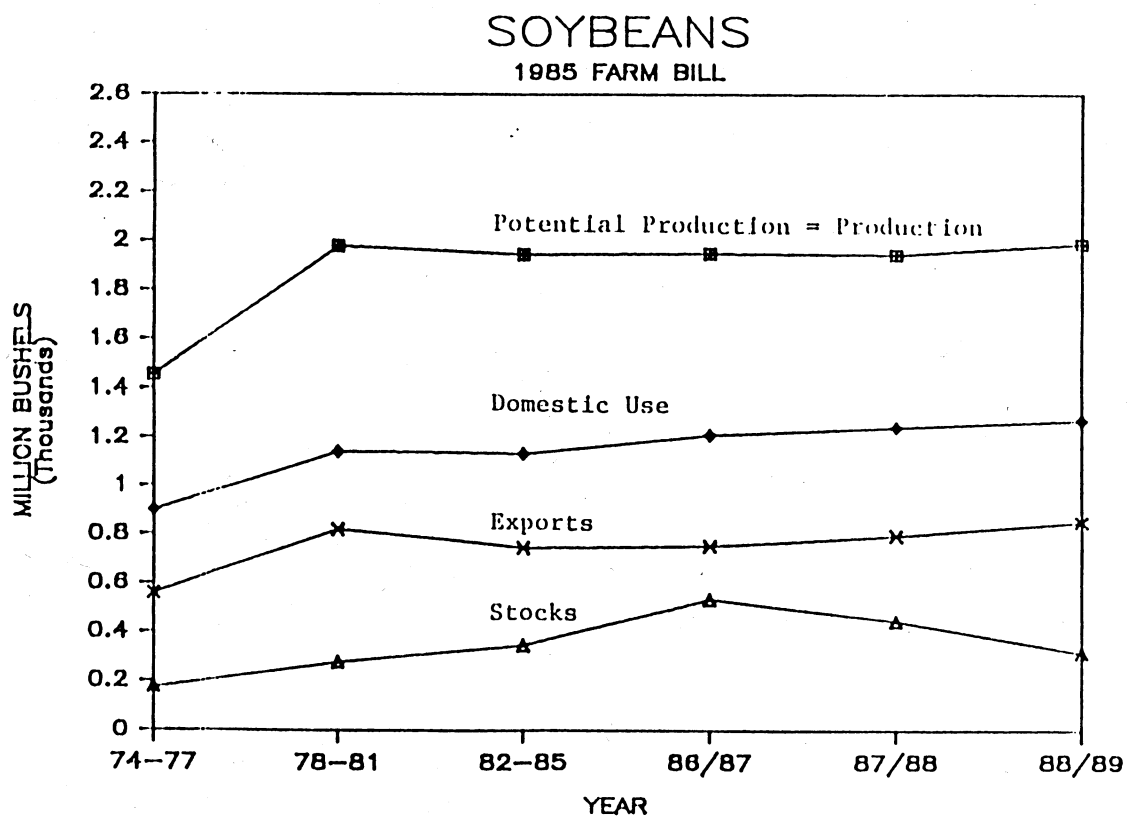


Figure 3. Soybeans supply, use, potential production, and potential supply; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-89 crop years.



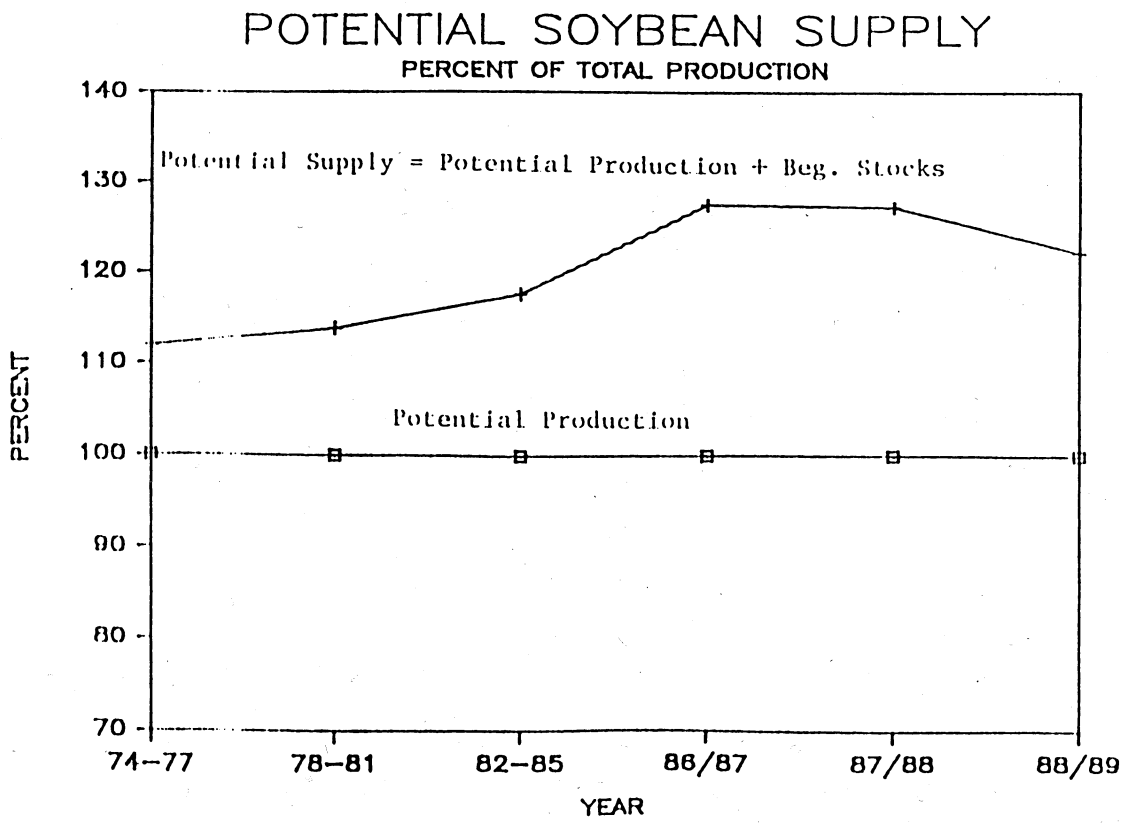
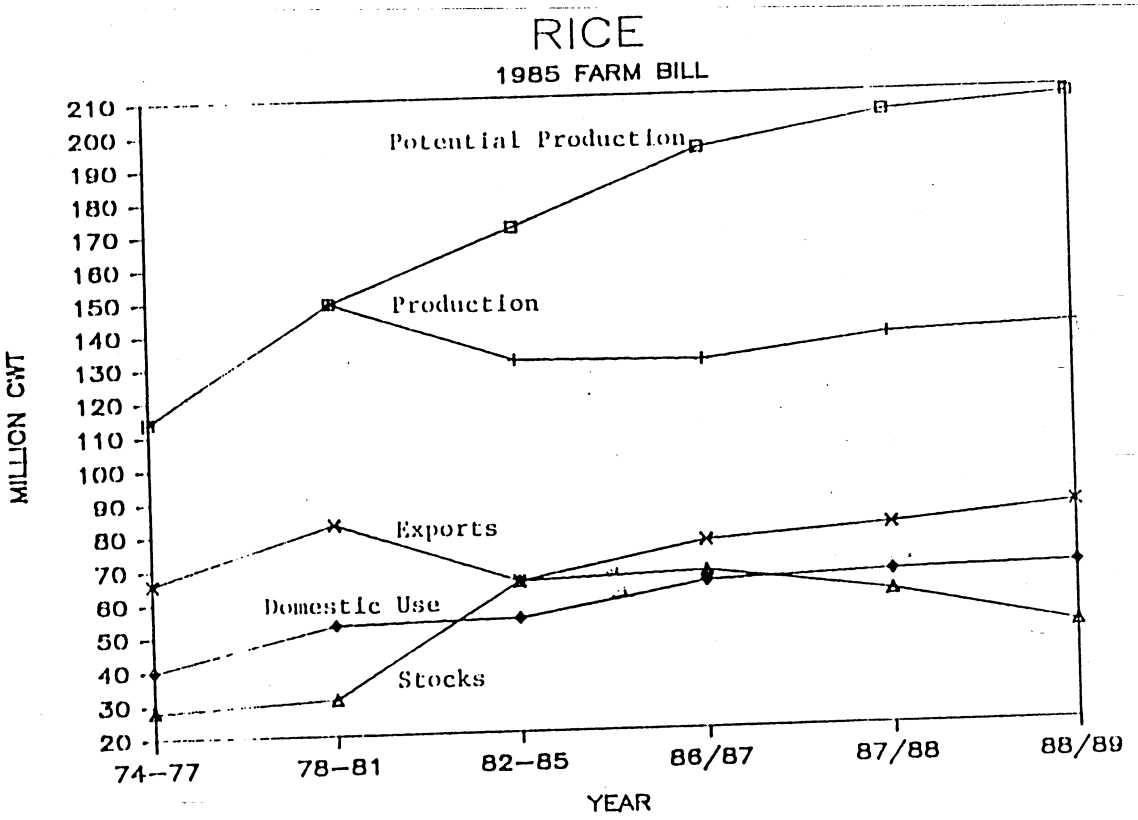


Figure 4. Rice supply, use, potential production, and potential supply; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-89 crop years.



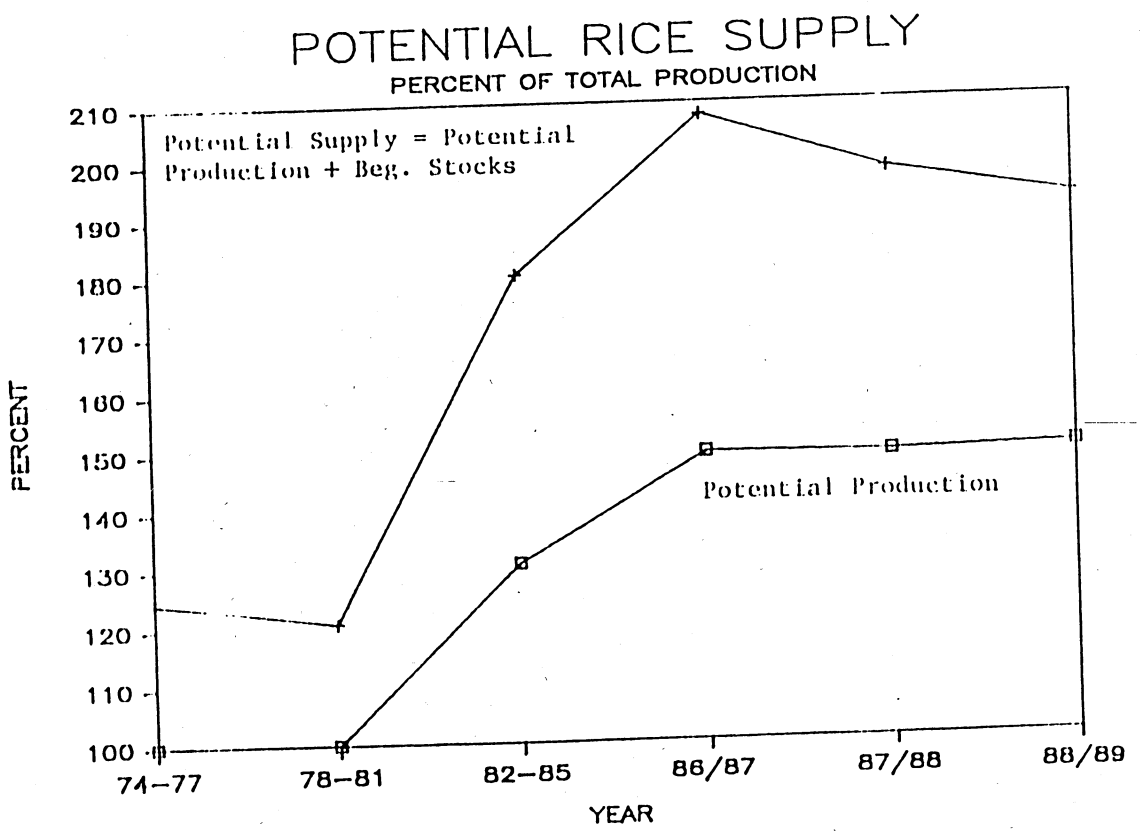
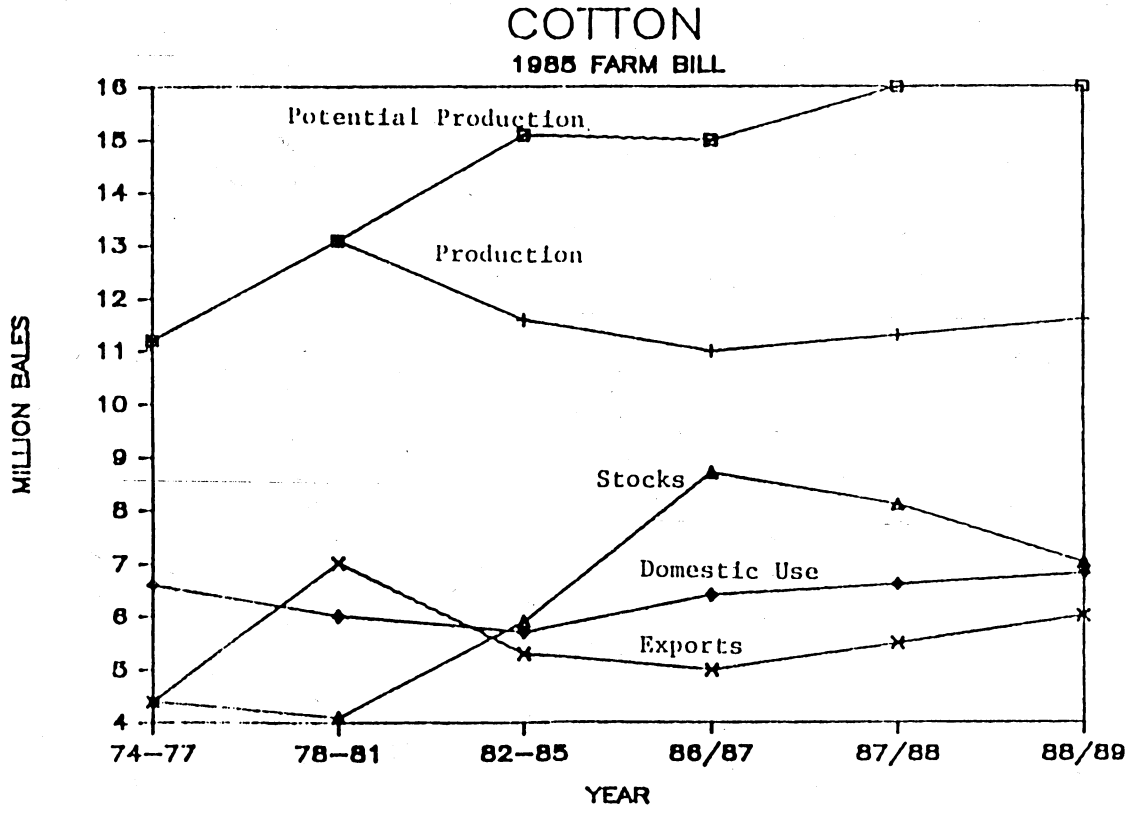
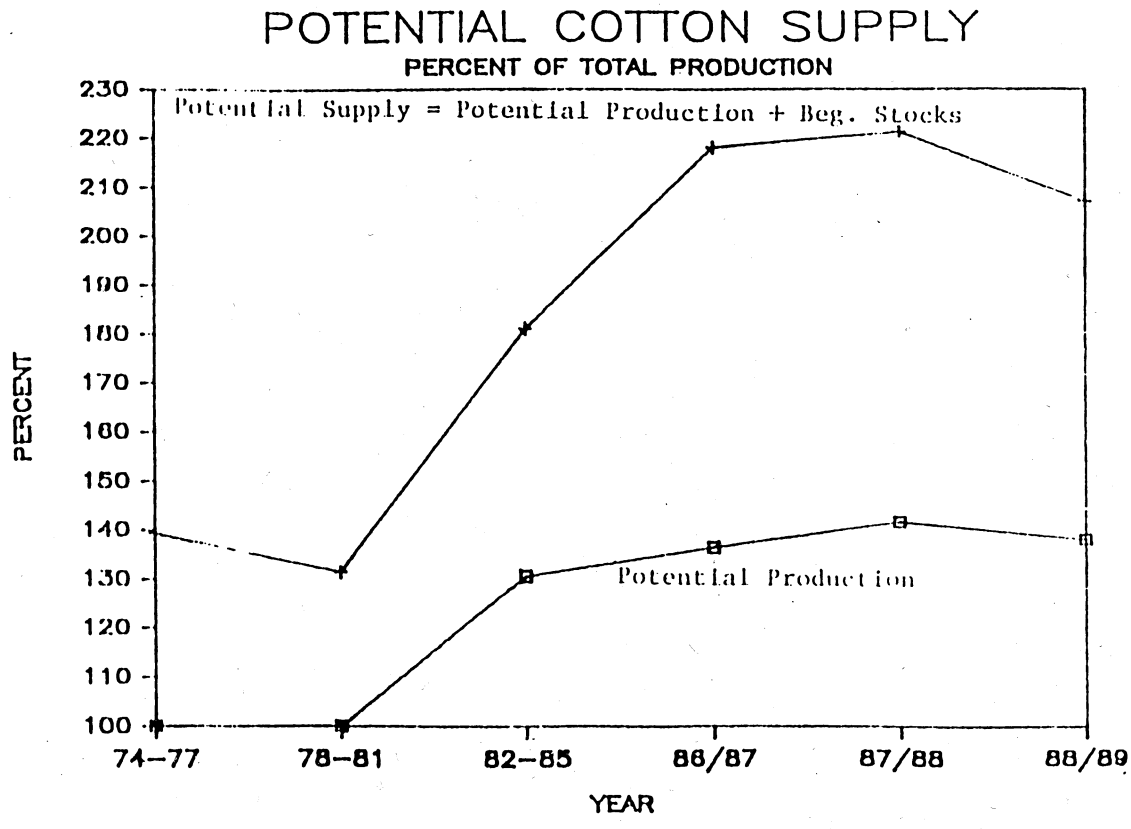


Figure 5. Cotton supply, use, potential production, and potential supply; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-89 crop years.





Potential production is 130 to 150 percent of actual production for both commodities during the FSA85 years. Stocks for both commodities are reduced through the FSA85 marketing loan. However, from the bottom panels, it is apparent that potential supply for both rice and cotton is nearly double actual production levels in 1988/89. The excess supply condition, even with the relatively high FSA85 government costs and the market loan, is not altered appreciably. Stocks are trending downward but the potential production is high relative to demand and expensive diversion programs are necessary to balance stocks, production, and consumption at levels indicated by long-term trends.

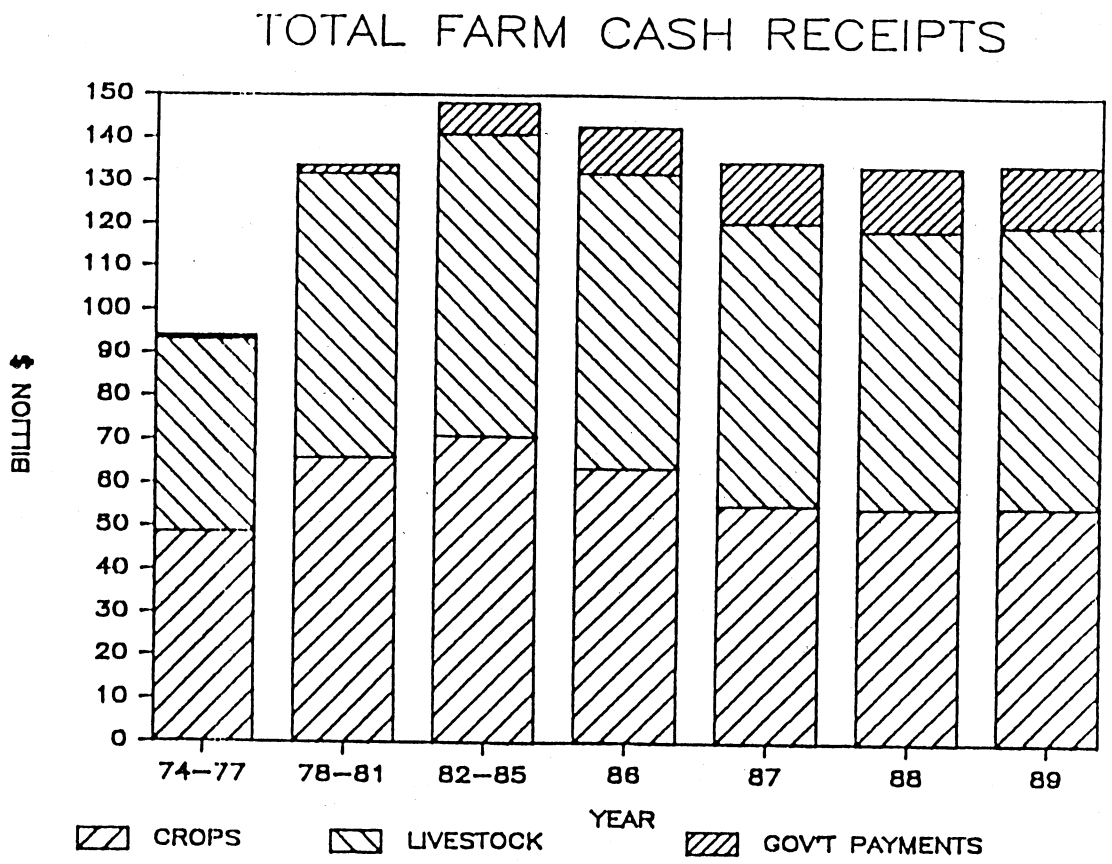
Agricultural Sector

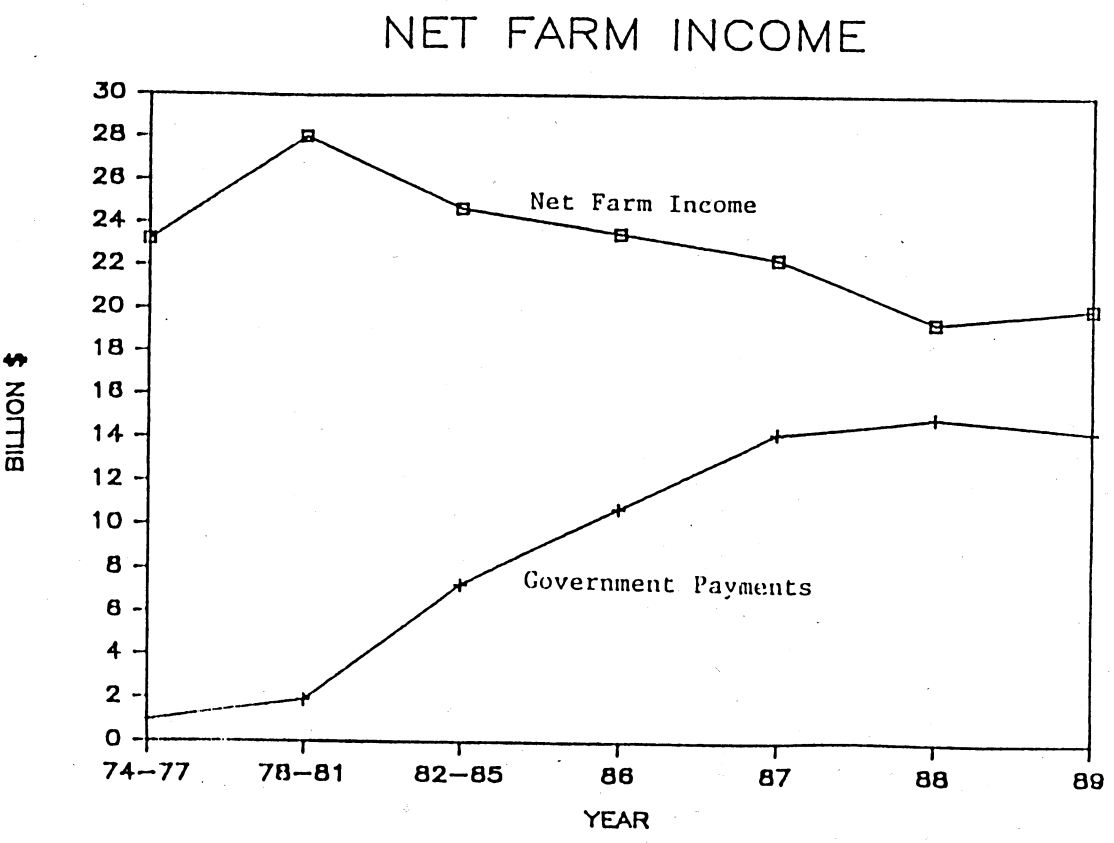
Figure 6 summarizes indicators of agricultural sector performance for the years for the 1973, 1977, and 1981 Farm Bill years and the FAPRI analysis of the FSA85. Recall that the sector results are for calendar years. From the top panel in Figure 6, observe that government payments are increasing relative to total farm cash receipts. Total farm cash receipts fall during 1986 through 1988 then hold constant at the lower level. Also, crop receipts as a percent of total farm cash receipts decline. Generally, the trend for total farm cash receipts is one of cash crop receipts falling, from approximately 70 billion annually during the 1981 Farm Bill years to below 50 billion in 1989. Livestock cash receipts remain relatively constant over the period. The difference in cash receipts for crops is not made up totally by increased government payments.

Net farm income is plotted in the bottom panel of Figure 6 along with direct government payments. Government payments increase from around 1 billion dollars annually for 1973 Farm Bill years to approximately $15 billion in 1989. Net farm income averages about $24 billion until 1986, then falls. The important message in the bottom panel is net farm income relative to direct government payments. Government payments during the three FSA85 years represent considerably more than half of net farm income, $14 billion compared to an average of about $22 billion. Clearly, the program design, the high excess capacity of U.S. agriculture, and world economic conditions that contribute to slow growth in export markets result in a situation that requires high government cost to sustain existing low net farm income levels.

The major story from this longer term sector evaluation is that a substantial and sustained turnaround in world and domestic markets will have to occur if net farm income is to improve appreciably. Given the commodity programs of the FSA85, initial improvements in export demand for program commodities will likely only reduce government cost. Prices will be slow to reflect improvement in export markets given U.S. and foreign production capacities. The fact is that there exists a very large excess production capacity in U.S. agriculture by standards of the recent past and that the high stocks and potential production positions must work through the system before net farm income prospects will improve without the benefit of high cost government programs.

Figure 6. Total farm cash receipts, government payments and net farm income; averages for 1973, 1977, and 1981 Farm Bill years and projections under the Food and Security Act of 1985 to 1986-87, 1987-88, and 1988-89 crop years.





References

The following special reports can be obtained by writing to the Center for Agricultural and Rural Development, 578 Heady Hall, Iowa State University, Ames, Iowa 50011.

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