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Dan Dvoskin on U.S. Farm Excess Capacity Its Value Is a New Record

Over much of the last 50 years U.S. farm production capabilities have grown faster than increases in quantities demanded, for domestic use and for export.

As a result there has been excess capacity in many years, where potential output at actual prices has been greater than commercial use.

Commodity programs utilizing a variety of tools such as acreage reduction programs, price supports and export assistance have attempted to support farm income and increase the quantities sold. Many times these programs have worked at cross purposes. Acreage reduction programs have restrained the use of land. However, supporting prices above market clearing levels encouraged use of added amounts of fertilizers and other inputs in order to push yields up on the land that was in production. These increased yields have been and continue to be an important part of the excess capacity.

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No Excess Capacity With Free Markets

With no government intervention there is no excess capacity in the long run. Markets clear. What is produced and marketed is purchased for domestic use, exports or adjustment of commercial stocks to facilitate commercial transactions. Thus, the intervention by the government in the farm economy is directly linked to excess capacity.

The Three Parts of Excess Capacity

Excess capacity is the sum of three parts: (1) potential production from land diverted from production with govern-

ment programs; (2) noncommercial exports such as exports under P.L.-480 programs, as well as other programs that provide significant financial assistance to foreign buyers; and (3) changes in farm commodity stocks.

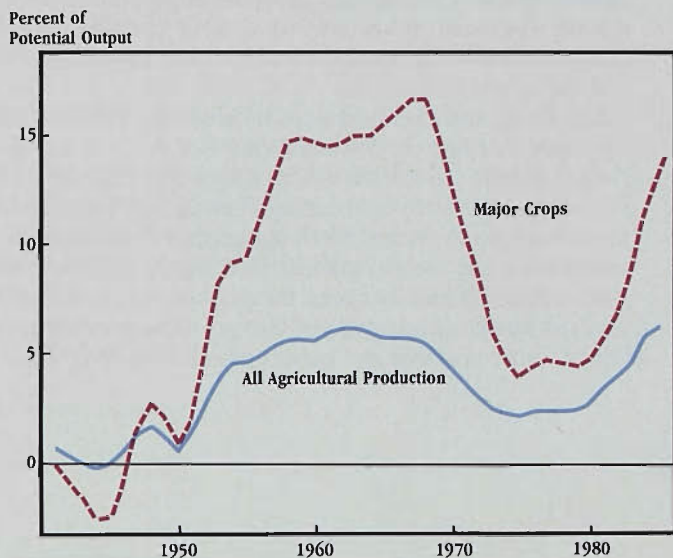
Estimates

In 1985 the value of farm excess capacity was about \$9 billion, an amount equivalent to 6 percent of potential total farm production.

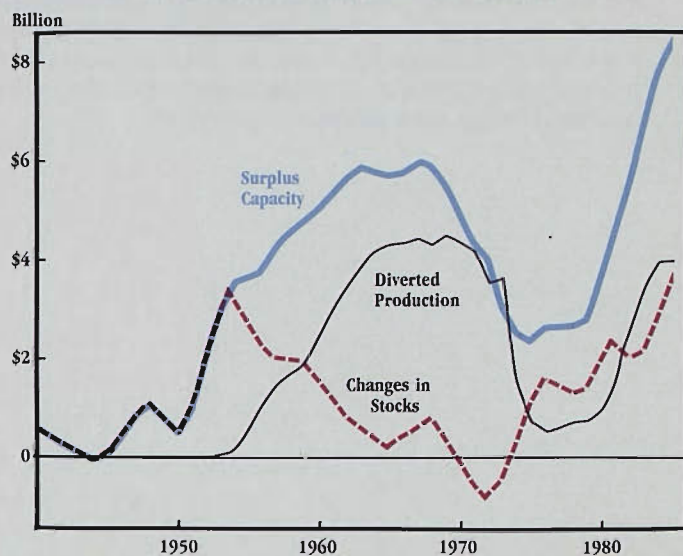
During the 1940's the amount of excess capacity was quite small, around 1 percent of total farm production. However, it increased in the 1950's and into the 1960's as shown in figure 1. This increase in excess capacity during these years was related to sluggish export demand, small increases in domestic demand, sharply increasing crop yields, and expansion of land cropped.

The excess capacity of U.S. farming is associated primarily with a limited number of crops—wheat, corn, oats, barley, sorghum, cotton, and soybeans—and dairy. This is where we find the excess capacity simply because these are the crops and the livestock that have received the major proportion of the government support.

Surplus Capacity Concentrated with Major Crops



Stock Accumulation and Diverted Production Contribute to Current \$8 Billion Surplus Capacity



Tom Fulton, James Langley, and LeRoy Rude on The 1986 Wheat Poll Reflects Diversity of Producers

Since the 1950's, (except for a period in the 1970's), the excess capacity of the seven major crop group (excluding dairy) as measured by a percent of potential production has been 2 to 3 times higher than the similar measure for the entire farm sector. The excess capacity for these seven major crops reached nearly 17 percent in 1967. It then declined as exports expanded. But since 1979 it has increased steadily and in 1985 was 13 percent.

The soil bank and other set aside programs in the 1950's were aimed at reducing stocks of farm commodities. This policy seemed to work fairly well during the 1950's and the 1960's. As diverted acreage increased, changes in net commodity stocks diminished. There was a tradeoff. Substantial increases in diversion of land from crop production was necessary to arrest the buildup in stocks.

The success of the acreage diversion programs in arresting the buildup of stocks in the 1960's should not be over-emphasized. Long run excess capacity actually increased during that period reaching its highest level in the 1960's. Almost all of this excess capacity was associated with diverted production which reached its peak in the late 1960's.

Later in the 1970's and the 1980's both stock accumulation and diverted production increased. In turn, the value of excess capacity—potential production from land diverted from production with government programs, changes in farm commodity stocks, and non commercial exports—set new records in successive years 1983, 1984, and 1985. ■

Seven Year Averages Shown

The specific estimates of excess capacity shown in the figures for any one year is the moving average estimates for the seven year period surrounding a particular year. For example, the 1967 17 percent estimate of excess capacity of the seven major crops is an average of the estimates for the period 1964 through 1970.

On June 25, 1986, the U.S. Department of Agriculture mailed 1.6 million ballots to wheat growers for the first time in 23 years. Required by the Food Security Act of 1985, the *non-binding poll* asked those with a vested interest in wheat production to vote for or against mandatory production limits that would result in, "wheat prices that are not lower than 125 percent of the cost of production (excluding land and residual returns to management) as determined by the Secretary."

The Food Security Act required USDA to ask the characteristics of respondents. Ballots included questions about type of operation, class of wheat, and size of wheat base. The ballot contained nine boxes arrayed in six questions. Of the 1.6 million ballots mailed, 22 percent were returned. After discounting invalid ballots, 346,034 remained. Of the re-

maining valid ballots 54 percent were marked yes (favoring mandatory limits on production).

Accompanying the 1986 results was a statement by Secretary of Agriculture Richard E. Lyng: "Based on the relatively small response to the wheat poll, I don't think a great deal of significance can be attached to the results. I, therefore, consider the poll to be inconclusive."

In 1963—the last previous poll—1.1 million wheat producers were asked for the 13th time since 1941 to vote for or against mandatory production controls. Then, producers were voting for or against a program that, if approved by two-thirds of those voting, would have become mandatory for 1964. Wheat producers rejected mandatory controls by a narrow margin of 52 percent against and 48 percent for in that poll. Previous referendums had received sufficient majorities to be implemented.

Although the conclusions one can draw from the 1986 poll are limited by the low response rate and the wording of the questions, an examination of the results of the poll suggests that there is substantial diversity among wheat producers. Voting mar-

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Wheat Poll Ballots Percentage Favoring Production Controls

