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# THE FOOD SECURITY ACT OF 1985 - STAYING THE COURSE OR CHANGING DIRECTIONS?

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# THE FOOD SECURITY ACT OF 1985 - STAYING THE COURSE OR CHANGING DIRECTIONS?

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Although the Food Security Act of 1985 (FSA-85) has been expensive, levels of support are declining and by 1990 could be a central theme in the debate of how far the American farmer is willing to go in the direction of free markets. Also at the core of this issue is whether the European community will cooperate in the GATT round of agreements - back away from export subsidies and participate in some form of supply controls. As usual modifications are being considered, but the driving force behind the FSA-85 was to regain world trade or at least move to a level playing field while maintaining net farm income. This theme will not likely fade away. Should we reach 1990 without concessions from the European community then freezing government supports at around $10-12 billion per year with export enhancement and low pricing strategies will most likely dominate the first half of the 1990's.

Obviously any second guessing of policy directions is dangerous. But most recent analysis by the Food and Agricultural Policy Research Institute suggests that the FSA-85, with fine tuning, may be difficult to dethrone. Why? We have considered several options ranging from:

-- Rapid decline in target prices to lower government costs.

-- Expanding the conservation reserve from 45 to 65 million acres.

-- Unilateral free trade with the U.S. dropping all supports to agriculture, the rest of the world unchanged.

-- Multilateral free trade with all countries dropping government support

-- Mandatory supply control with higher support prices for major crops and dairy.

Other options will certainly surface before 1990, however these particular strategies are also subject to certain problems, and in most cases create more problems than are currently evident in the FSA-85.

## Lower Target Price Support

A faster track that lowers target prices - support to feedgrain and wheat farmers - is not popular with farm groups and has not received support even though the administration has offered this strategy each year since 1985. FAPRI analysis suggests that the safety net to agriculture will require greater support especially when low market price strategies are pursued.

## Expanding Conservation Reserves

Expanding the conservation reserve to 65 million acres runs into several problems. First, bids will have to be raised considerably to pull in the additional 20 million acres. And most of this area will have to be removed from the Cornbelt. Second, excess capacity appears to be a problem in the near term but could erode away by the 1992-95 period. In fact current estimates indicate that 45 million acres may remove too much land - especially if droughts are experienced before 1995. Obviously more land is available but most likely at higher market prices. So it's even possible that some of the 45 million targeted to go into the reserve may have to be pulled back into production, especially in the event of another drought year.

## Unilateral Free Trade

Unilateral free trade also creates problems, especially in the near term. Removing government supports in the U.S., other countries remaining the same, drops net farm income to an unacceptable level. Target prices and stock levels are the primary problems. No government support implies releasing stocks, discontinuing ethanol programs and income support to farmers. This combination simply drops crop prices below levels that would be politically feasible. Some safety net would be required and for this reason moving back towards FSA-85 is most likely.

## Multilateral Free Trade

Multilateral free trade is currently being pushed by the administration in the GATT round of agreements. U.S. crop farmers would probably benefit from a move in this direction, but at the expense of the European and Japanese farmers.

Dropping government supports in Europe could result in a 50% reduction in EEC crop prices. Production declines would be made up by U.S. and other competitors. U.S. prices would increase, but European farmers would be faced with severe production constraints and considerably lower income. This strategy would certainly be met with considerable political disfavor, so this option would not be acceptable to Europe, but current policy is not acceptable to U.S. producers. This debate will continue until concessions are met on both sides. The U.S. will subsidize as long as the EEC does the same. Big issue for 1990!

## Mandatory Supply Control

Supply control with higher support prices has been a popular option by many farmers and farm organizations. Support tends to be more visible in years when agriculture is faced with above normal financial pressure. Although the strategy is popular with some farmers it has, in general, not received strong support from the livestock industry. Supports to crop and dairy producers do boost the net farm income for this group, but at the expense of the livestock industry and consumers with higher food prices. Supply controls simply mean less area planted so the input industry would be adversely affected.

For these reasons gainers under this strategy have not been able to persuade losers, hence not much consensus to this point. But this program direction should not be completely written off. Concessions that protect the livestock industry could certainly move this program option back into the mainstream.

## Conclusions

Although 1990 will be difficult to predict, current estimates imply a continuation of the FSA-85 but with some refinements. The biggest decision will be how far agriculture is willing to follow the current free market path. Target prices will likely be frozen at the 1990 level because of net farm income problems. It is not very likely that the total 45 million acres will actually be placed in the conservation reserve - will put too much pressure on available area by the early 1990's.

Competition in foreign markets will be given more attention. If EEC does not back off subsidies then export enhancement will most likely continue. PIK certificates will be continued but at a smaller percentage as stocks dry up. Drought concerns will necessitate rethinking weather risks and the level of desired stocks.

Supply management will re-emerge, but support will depend on the degree of financial pressure and the possibility of protecting the livestock industry.

Free market themes are not likely unless a transition period is devised with a safety net similar to the current FSA-85.

Should the FSA-85 prevail in 1990 the following major risks may also shape the level of fine tuning:

- world economies with heavy debt
- drought cycles
- technology
- water quality
- foreign competition
- U.S. government expenditures and budget constraints
- regional implications associated with lower government support
- farm financial

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