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# ILLINOIS AGRICULTURAL ECONOMICS STAFF PAPER

TREASURY COSTS OF U.S. AGRICULTURAL & FOOD POLICY --

A PERSPECTIVE

by

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## SUMMARY

Treasury costs of public programs must be used with extreme caution due to inflation, deflation and changes in sizes of the total economy and its sectors. For this study, comparisons were made in current dollar terms between Treasury costs for various agricultural and food sectors and selected measures of relevant aggregates of the economy over a period of the past three decades.

Budgetwise, the two major programs (farm price-income and domestic food distribution), in the U.S. Department of Agriculture have continued to be dominant since the mid-1950's and accounted for most of its Treasury costs. Food programs have grown more rapidly than price-income programs and have accounted for a larger share of total U.S. budget outlays. On the other hand, over the three decades, farm price-income costs, as well as total agricultural program Treasury costs, have declined as a percentage of total budget outlays. Both are half or less of their respective percentage levels in the 1960's. Similarly, the agricultural sector has also declined, in relative economic terms, as compared to the total economy.

Thus, for the five years of the 1980's, farm production has averaged 4.6% in value of total U.S. production, farm population averaged 2.5% of total U.S. population, and Treasury costs for federal farm price-income programs averaged 1.2% of total U.S. budget outlays.

TREASURY COSTS OF U.S. AGRICULTURAL & FOOD POLICY --  
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PURPOSE OF STUDY

New 1985 federal agricultural and food policy is currently being developed. It will replace the expiring 1981 Agriculture and Food Act. This is the latest installment of a half century evolution in public agricultural and food policy which has focused on the price and income problems of the agricultural sector. As with all of our nation's governmental programs, this public policy will imply a shift in costs as well as benefits among individuals and groups within society. Likewise, some of these costs and benefits are economic while some are social, etc. Furthermore, some policies influence the private sector with direct costs while some indirectly affect it through the Treasury.

Recently, these Treasury costs for agricultural and food programs have not only risen but have become increasingly important since the record-breaking federal deficit is one of the major problems facing our nation. As a result of these two factors, governmental expenditures for public goods and programs are being scrutinized by not only the Administration and Congress, but also by U.S. taxpayers. Therefore, as the bud-

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get-making season continues, the upcoming agricultural and food policy raises concerns about its Treasury-taxpayer costs as well as its social distributional effects. To improve understanding about these issues, it is useful to analyze both the benefits of past U.S. agricultural and food programs and their corresponding Treasury costs. This study will focus on the actual U.S. budget costs of these programs over the past three decades.

#### ORGANIZATION AND DATA SOURCES

Raw time series cost data mean little in the presence of inflation, deflation and an ever-changing economy size. A more useful presentation of such data could be expressed either in current dollars relative to other current dollar time series data or alternatively in constant dollars. However, in the latter case, all other related data would also need to be converted to a similar constant base. Thus, in this study current Treasury cost data will be compared to other key changing economic factors, also expressed in current terms, in order to put the nominal numbers in perspective. Yet, it should be noted that consistent Treasury cost data are scarce and caution must be exercised when identifying, presenting, and interpreting budget cost figures.

The data presented in Table 1 were obtained from various annual issues of the Budget of the United States Government, the USDA Budget Summary, the Economic Report of the President, and ERS, USDA (see sources

cited). These cost data series were specifically chosen to reflect their relative importance not only to agricultural and food policy but also to the total U.S. budget and Gross National Product (GNP). Furthermore, the comparisons in percentages were developed to convey to policymakers, concerned groups, and interested citizens an important and unique perspective on these costs which are rarely reported. Once again, it is stressed that these costs are expressed in nominal rather than in constant dollar terms to serve the study's purpose of providing a perspective of the impacts of past and present programs in relative rather than in the conventional current value terms.

#### FINDINGS

In general, the total federal expenditures for all programs in agriculture, both farm and food, have been increasing over the years until 1984 when they fell sharply by nearly \$8.6 billion (Table 1, see column 3). However, when compared to total U.S. governmental expenditures, total agricultural program outlays as a percentage of the U.S. budget have declined as a trend over the years from 8.1% in 1950 to 4.3% in 1984 (see column 9). There has been a fluctuation around that trend from a one year high of 9.2% in 1959 to a one year low of 2.3% in 1952. As one views the past three decades in general, the agriculture budget was a higher Treasury burden in the last half of the 1950's and first half of 1960's than throughout the 1970's and 1980's. Furthermore, the recent upturn is still considerably less than those of earlier periods. Thus, even though agricultural programs have been more costly, other federal programs have been more so.

The two major programs implemented by the USDA are farm price-income programs and domestic food programs. Farm price-income program outlays in current dollars have fluctuated from year to year between 1950-1984, reaching a high of \$18.9 billion in 1983 (see column 1). During 1982-1983, these outlays skyrocketed largely due to depressed product market prices, slowly escalating support levels under the 1981 Agriculture and Food Act, and the 1983 Payment-in-kind program (PIK). Meanwhile, expenditures for domestic food programs have consistently risen from \$83 million in 1950 to a high of \$17,182 million in 1984 (see column 2).

Measuring these outlays as a percentage of total budgets (both agriculture and U.S.), contrasting trends are evident. As a percentage of total agricultural program outlays, total domestic food program costs have grown rapidly since 1970 and actually accounted for over half of these outlays in 1975-1976 and 1980-1981 (see column 6). As a percentage of the total U.S. budget, food program costs again reveal an increasing trend (see column 8). However, the farm price-income program outlays as a proportion of these budgets has exhibited the opposite. Farm price-income program outlays as a percentage of total agricultural program outlays have varied over the years ranging from a low of 3.0% in 1952 to nearly 73% in 1956. Nevertheless, a slightly downward trend has occurred over the past three decades (see column 5). Similarly, as a percentage of the total U.S. budget, farm price-income programs have been declining since 1950 with a small upturn in 1982-1983. Yet, this recent high percentage of 2.3% in 1983 was still about two-thirds of that prevailing during most of the 1960's (see column 7).

To get further insights into the budget outlays for farm price-income programs, total farm cash market receipts (i.e., livestock products plus crops) as a percentage of GNP were calculated. It appears that over the three decades, total farm cash market receipts have declined from about 10% of GNP in 1950 to approximately 4% currently (see column 12). This has occurred while the farm population declined from 15% to 2.5% during the same time period (Economic Report of the President). Thus, downward trends appear in three interrelated sets of variables with the 1984 figure in parentheses: 1) relative size of farm production in the total economy (3.8%); 2) size of farm population to total population (2.5%); and 3) size of farm price-income program costs in the total federal budget (.9%). Not only is the last variable the lowest of the three but its decline over the past three decades has also been the least.



Table 1.  
TREASURY COSTS AND RELATIONSHIPS OF FEDERAL AGRICULTURAL AND FOOD PROGRAMS  
(all dollars in current terms)

Year	1	2	3	4	5	6	7	8	9	10	11	12
	Total Farm Price & Income Programs	Total Domestic Food Programs	Total Agri-cultural Program Outlays*	Total U.S. Budget Outlays	Total Farm Price & Income Programs as Proportion of Total Ag. Program Outlays	Total Domes-tic Food Programs as Proportion of Total Ag. Pro-gram Outlays	Total Farm & Income Programs as Proportion of U.S. Budget	Total Domes-tic Food Programs as Proportion of U.S. Budget	Total Ag. Program Outlays as Proportion of U.S. Budget	Total Farm Marketing Receipts	Total Ag. Program Outlays as Proportion of U.S. Budget	Total Farm Cash Mar-keting Receipts as Proportion of GNP
	(mil.\$)	(mil.\$)	(mil.\$)	(mil.\$)	(%)	(%)	(%)	(%)	(%)	(bil.\$)	(bil.\$)	(%)
1950	1,845	83	3,262	40,156	57.0	2.5	4.6	.2	8.1	28.5	286.5	9.9
1951	**	83	1,140	44,633	**	7.3	**	.2	2.6	32.9	330.8	9.9
1952	45	84	1,505	66,145	3.0	5.6	.1	.1	2.3	32.5	348.0	9.3
1953	2,125	83	3,390	73,982	63.7	2.4	2.9	.1	4.6	31.0	366.8	8.5
1954	1,688	84	3,044	67,772	55.5	2.8	2.5	.1	4.5	29.8	366.8	8.1
1955	3,508	83	4,881	64,570	71.9	1.7	5.4	.1	7.6	29.5	400.0	7.4
1956	3,941	83	5,412	66,540	72.8	1.5	5.9	.1	7.8	30.4	421.7	7.2
1957	2,976	99	5,226	69,433	56.9	1.9	4.3	.1	7.5	29.7	444.0	6.7
1958	1,458	167	5,132	71,936	28.4	3.3	2.0	.2	7.1	33.5	449.7	7.4
1959	3,432	218	7,384	80,697	46.5	3.0	4.3	.3	9.2	33.6	487.9	6.9
1960	2,045	234	5,618	76,539	36.4	4.2	2.7	.3	7.3	34.2	506.5	6.8
1961	1,983	241	6,182	81,515	32.1	3.9	2.4	.3	7.6	35.2	524.6	6.7
1962	2,747	275	7,053	87,787	38.9	3.9	3.1	.3	8.0	36.5	565.0	6.5
1963	3,385	283	8,151	92,642	41.5	3.5	3.7	.3	8.8	37.5	596.7	6.3
1964	3,847	346	8,337	97,684	46.1	4.2	3.9	.4	8.5	37.3	637.7	5.8
1965	3,236	362	7,758	96,507	41.7	4.7	3.4	.5	8.0	39.4	691.1	5.7
1966	1,767	517	6,563	106,978	26.9	7.9	1.7	.5	6.1	43.4	756.0	5.7
1967	2,071	522	6,106	158,254	33.9	8.5	1.3	.3	3.8	42.8	799.6	5.4
1968	3,725	505	8,201	178,833	45.4	6.2	2.1	.3	4.6	44.2	873.4	5.1
1969	4,811	587	8,815	184,548	54.6	6.7	2.6	.3	4.8	48.2	944.0	5.1
1970	4,471	960	9,231	196,588	48.4	10.4	2.3	.5	4.7	50.5	992.7	5.1
1971	3,575	2,179	9,469	211,425	37.8	23.0	1.7	1.0	4.5	52.7	1,077.6	4.9
1972	5,080	2,625	12,056	231,021	42.1	21.8	2.2	1.1	5.2	61.1	1,185.9	5.2
1973	4,788	2,901	11,366	247,074	13.5	25.5	1.9	1.2	4.6	86.9	1,326.4	6.6
1974	1,412	4,433	10,431	269,620	6.2	42.5	.5	1.6	3.9	92.4	1,434.2	6.4
1975	744	6,643	11,981	326,151	11.1	55.4	.2	2.0	3.7	88.9	1,549.2	5.7
1976	1,535	7,959	13,791	366,418	24.2	57.7	.4	2.2	3.8	95.4	1,718.0	5.6
1977	4,484	8,728	18,528	402,710	33.3	47.1	1.1	2.2	4.6	96.2	1,918.3	5.0
1978	6,587	8,926	19,800	450,804	21.6	45.1	1.5	2.0	4.4	112.9	2,163.9	5.2
1979	4,850	10,787	22,427	490,971	14.8	48.1	1.0	2.2	4.6	131.8	2,417.8	5.5
1980	3,459	14,015	23,293	590,920	15.6	60.2	.6	2.4	3.9	140.5	2,631.7	5.3
1981	3,993	16,202	25,609	678,209	41.4	63.3	.6	2.4	3.8	142.6	2,957.8	4.8
1982	11,652	15,581	36,261	745,706	32.1	43.0	1.6	2.1	4.9	144.8	3,069.3	4.8
1983	18,851	17,058	45,497	808,327	41.4	37.5	2.3	2.1	5.6	138.7	3,304.8	4.2
1984	7,315	17,182	36,913	851,781	19.8	46.5	.9	2.0	4.3	140.2	3,666.3	3.8

\* Total agriculture program outlays is total USDA Budget outlays with minor deductions for some forestry expenditures and for salaries and expenses of specified programs, such as the FmHA.

\*\*Due to surplus disposal for the national war effort, no costs were incurred.

SOURCES: (1950-1981) USDA, Economic Research Service, Food & Agricultural Policy Branch, unpublished data; 1982-84 Executive Office of President, Budget of the United States Government, FY 1984, 1985, 1986.