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Fibers

Background for 1990 Farm Legislation

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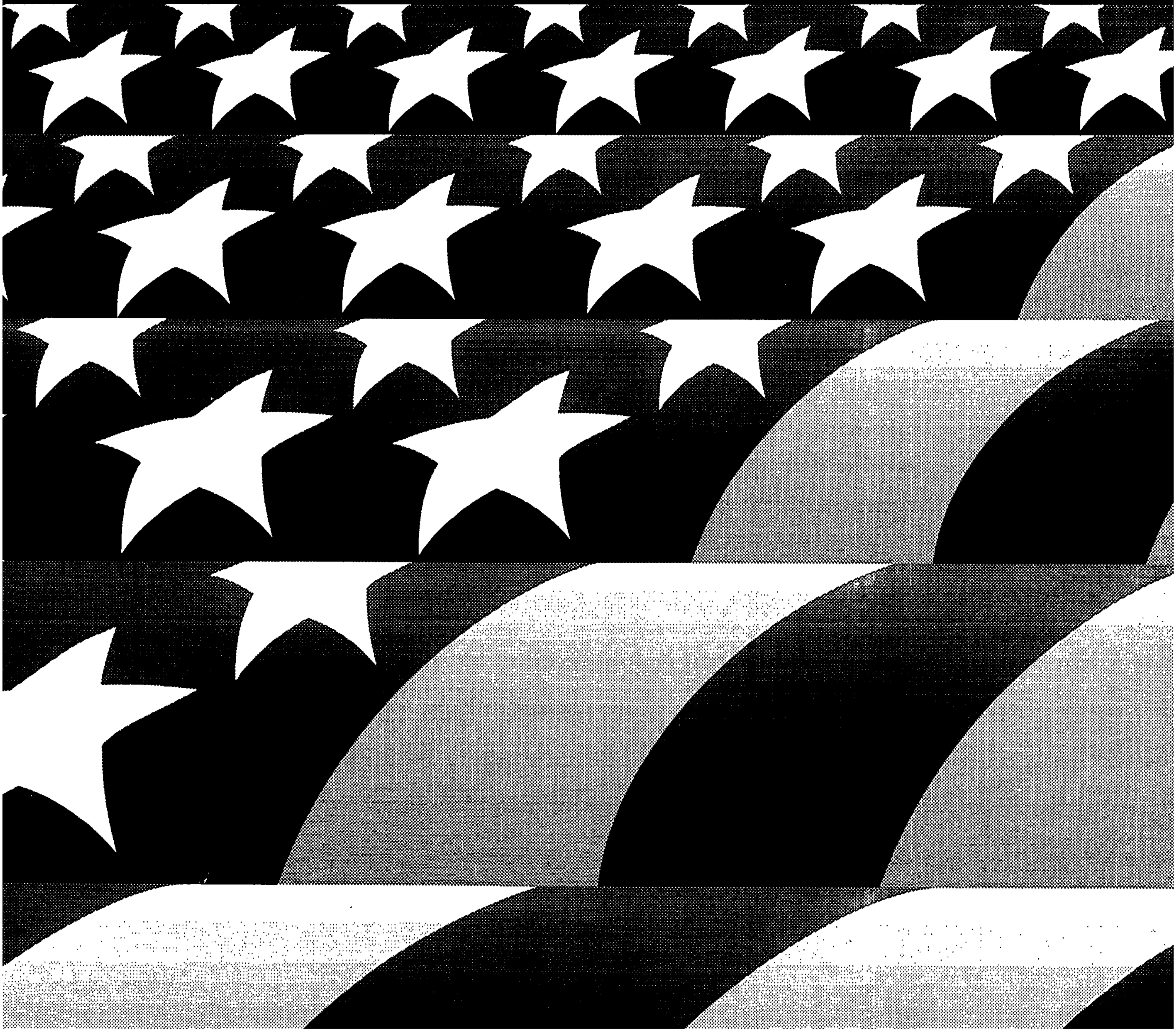

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Part 1: Cotton. By Harold Stults, Edward H. Glade Jr., Scott Sanford, and Leslie A. Meyer.

Part 2: Wool and Mohair. By John V. Lawler and Robert A. Skinner.

Abstract

Cotton acreage, production, and prices have been influenced by Government programs since the 1930's in an attempt to meet market needs, with varying degrees of success. The Food Security Act of 1985 is generally considered successful in dealing with the cotton sector despite several problems. The marketing loan provisions of the act helped make cotton competitive in world markets in 1987 and some market share was regained. However, consistently competitive pricing has been somewhat elusive. In 1988-89 problems with the adjusted world price formula and with the storage terms resulted in noncompetitive prices for U.S. cotton. A rule change on the adjusted world price formula and prices above the loan rate helped restore competitiveness. While the general preference for 1990 legislation for cotton will likely be for stability, the combination of budget, trade, environment and flexibility issues may result in more than fine tuning of the current act.

Wool and mohair have been declining industries. Sheep inventories are a fifth of their World War II level; goat numbers are a third of their mid-1960's level. High lamb prices and a strong demand for wool increased producers' net returns in the late 1980's. Government payments to wool producers in 1988 were the lowest since 1980 because of a record high wool price. Policymakers have had limited control over wool program costs given the formula-based Government support price, the trend of declining textile market share, rising raw wool textile imports, stagnant lamb and mutton consumption, and the dominance of Australia and New Zealand in the world wool market. Issues for 1990 include whether to continue the program and, if so, the level and method of determining support prices.

Keywords: costs and returns, exports, cotton, cotton production, farm programs, imports, mohair, policies, program effects, textile mill use, wool

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Preface

Debate is underway in the 101st Congress on legislation to replace the expiring Food Security Act of 1985. The omnibus food and agricultural legislation will continue a 57-year history of Federal farm programs that dates back to the Agricultural Adjustment Act of 1933.

This lengthy history provides important lessons on the effects of various policy options that may be applied to development of the commodity programs for the 1990's. ERS analysts have prepared a series of background reports on feed grains, food grains, fibers, oilseeds, livestock, and specialty crops. The reports analyze production, marketing, and use of the commodities, as well as the evolution of their respective support programs. The reports also identify important issues for the 1990 farm bill debate.

Federal agricultural policy and programs evolved in response to the frequent and often dramatic financial and resource adjustments necessary because of weather conditions, policy shifts, technological advances, and the vagaries of world supply and demand. While many of the current basic program instruments have been used since the 1930's, the focus of agricultural policy has shifted to meet the changing needs of the farm sector.

Between 1933 and the mid-1960's, farm policy was designed to address the problems created by chronic excess capacity and overproduction. Rapid technological advances, including mechanization, fertilizers, herbicides, pesticides, and improved varieties and hybrids, resulted in farm productivity far outpacing the growth in demand. With too many resources devoted to food and fiber production, low commodity prices, underemployment, and low returns for agricultural labor became characteristics of the farm sector. For most years, the average income of farm families has been significantly below the average income of nonfarm families. A variety of farm programs, including production control and government acquisitions, were adopted to address the problems arising from excess capacity.

With supplies exceeding domestic needs, exports became an increasingly important source of demand for U.S. farm products, especially in the 1970's. Expanding links between agriculture and the domestic and international economies broadened the farm policy arena to include macroeconomic, trade, and foreign policy considerations, as well as traditional concerns about farm prices and income.

Growing dependence on foreign markets exposed U.S. agriculture to risk associated with fluctuating world economic conditions. Events of the 1970's and 1980's --including the temporary disappearance of the sector's excess capacity, an export boom and bust, and a severe farm financial crisis--clearly demonstrated the volatility that can plague agriculture. The pitfalls of fixing programs based on expectations that conditions of the recent past would continue for the duration of a farm bill became apparent and pointed to the need for establishing farm programs that will allow farmers to adjust to market conditions.

The 1985 Food Security Act (PL 99-198) focused on shifting agriculture toward more market orientation so that the farm sector could produce for domestic and international markets at prices reflecting global supply and demand. The act lowered loan rates to make U.S. farm products more price competitive and to reduce the incentives that U.S. loan rates and price supports provide to foreign competitors to expand production. Target prices were reduced to minimize the pressure of lower loan rates on the Federal budget. Export promotion/assistance programs were mandated to address the problem of large price-depressing surpluses and declining U.S. export shares for many commodities. The Food Security Act also addressed long-term conservation and environmental issues.

The concerns behind many of the issues addressed during the 1985 farm bill debate remain as strong or stronger today. As a result, the 1990 agricultural policy agenda will be similar to that of 1985 in many respects. For example, because expanding exports in extremely competitive world commodity markets remains a critical challenge, price support and export programs will receive major consideration in 1990.

Interest in the conservation reserve and annual acreage reduction programs will persist because agriculture's productive capacity still exceeds demand. Stock policies will also be on the 1990 agenda. Reserve and Commodity Credit Corporation inventory management policies will be reexamined to determine how large stocks should be, how they should be financed, and how their release to the market can be encouraged when supplies tighten.

Environmental issues will receive more attention than in the 1985 debate. Surface and ground water quality, in particular, is likely to be a key conservation issue. The discussion is also likely to include proposals to discourage reliance on agricultural chemicals.

While the list of issues is extensive, budgetary pressures may limit policy options and focus debate on cost-saving proposals. While Federal outlays for farm programs dropped from the peak of $25.8 billion in fiscal 1986 to $12.5 billion in fiscal 1988, they remain several times the levels of a decade ago.

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