

# COTTON: THE 1985 FSA MADE A DIFFERENCE, BUT SO DID DEVALUATION

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> The strong economic performance of the U.S. cotton industry has been widely attributed to the 1985 Food Security Act (1985 FSA). These effects have been substantive. However, the devaluation of the dollar relative to other currencies was also important and its effects were substantial and roughly equal to those of the 1985 FSA.

Observers suggest that the recent cotton market strength is due to several factors including the 1985 Food Security Act (1985 FSA), the drought-induced production cutback, lowered dollar exchange rates and other government programs such as the Conservation Reserve Program. We set out to ascertain the relative importance of these factors. While our research is still ongoing, the results to date are instructive.

The 1985 FSA lowered the target price and the loan rate for cotton. The target price which is used in determining amounts of deficiency payments was dropped from 81.0 cents per pound in 1985 to 73.4 cents in 1989. The loan rate was 57.3 cents in 1985. By 1989 it had declined to 50.0 cents per pound.

Over this same period 1986-89 the value of the dollar dropped by 36 percent relative to a basket of currencies of six major trading countries.

Model simulation estimates of the effects of changes in the provisions of the 1985 FSA and of devaluation of the dollar relative to other currencies were substantial and roughly equal in magnitude. For example, as shown in the table, the changes in the FSA could have led to an average increase of 1.1 million bales of cotton exports if there had been only those changes and no changes in the other assumptions in the value of the dollar, weather, and Conservation Reserve Program. Similarly, the devaluation without changes in the assumptions on the FSA provisions, weather, and CRP would have led to an increase of 1.1 million bales of cotton. However, the average price impact was much greater for devaluation. That is, 9.0 cents for Memphis price and 7.5 cents for Liverpool price compared to 2.0 cents and 5.4 cents for the reduced target price and loan rate scenario.

The table presents the estimates for the four scenarios: reduced target price and loan rate, dollar devaluation, weather disturbances, and acreage retirement with the Conservation Reserve Program (CRP) on the U.S. cotton industry during the 1985 farm program period of 1986-89. The economic impact of each scenario was estimated independently to reflect the counterfactual assumptions by holding target price and loan rate at the 1981

Farm Act level, the dollar exchange rate at the 1985 level, assuming normal weather conditions and trend yields, and no CRP acreage reduction except for the particular scenario which evaluated the change in that particular factor.

Four-year figures are reported even though the year-to-year changes in impact are significant. For example, the annual effect of changes in the FSA on exports ranged from -.1 to 2.3 million bales. The comparisons reveal only the net result for the period between the baseline and simulation. The key performance indicators selected for evaluation were exports, ending stock, cash receipts, deficiency payments and prices. For a copy of the report showing the details of the estimates write to the authors, Department of Agricultural Economics, Texas A&M, College Station, TX, 77843-2124.

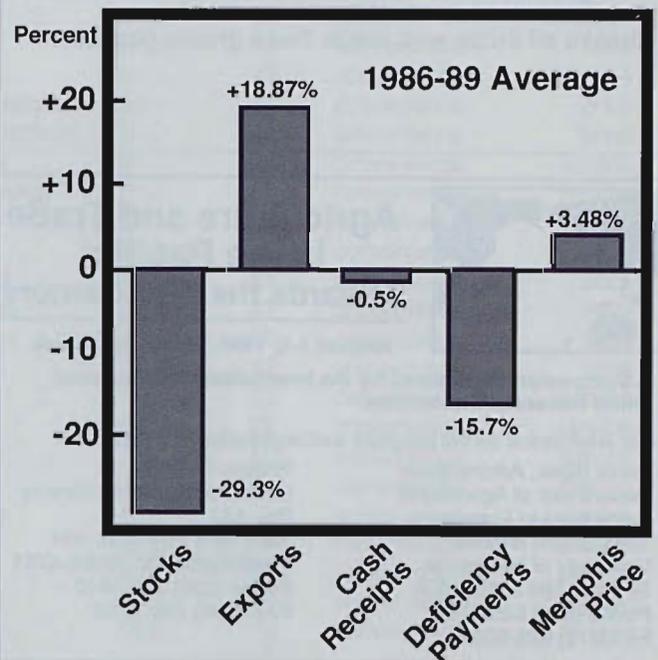
## Impact Evaluation of Four Major Factors on U.S. Cotton Industry:

Reduced Target Price (TP) and Loan Rate (LR), Dollar Devaluation, Weather Conditions and Conservation Reserve Program

	Actual	Reduced TP & LR	Scenario Impact		
			Dollar Devaluation	Weather	CRP
1986-1989					
Exports (Mil. Bales)	6.7	1.1	1.1	*	*
Ending Stocks (Mil. Bales)	5.3	-2.1	-2.1	-0.5	-0.4
Cash Receipts (Mil. \$)	4,219	-22	323	2	0
Deficiency Payments (Mil. \$)	1,020	-190	-215	-8	-72
Memphis Price (Cents/Lb.)	59.5	2.0	9.0	1.6	1.9
Liverpool Price "A" Index (Cents/Lb.)	70.2	5.4	7.5	1.0	1.1

\*Less than 0.1 million bale increase.

### Impact of FSA 85 Target Price and Loan Rate Reduction



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