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STAFF PAPER

U.S. FARM PROGRAM AND ITS 1988 PROVISIONS
A Brief Explanation of the Basic Features Related to Grains and Soybeans

HARVEY L. KISER*

APRIL 1988
No. 88-10

Department of Agricultural Economics
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Contribution No. 88-242-D from the Kansas Agricultural Experiment Station.

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Many agriculturalists are confused by the large number of federal farm programs that affect the U.S. grain markets. This is true particularly for foreign buyers of U.S. grain crops. U.S. farmers often are confused when the government introduces new goals and methods of implementing the farm programs. However, since farmers' incomes and their livelihoods may depend upon returns from participating in government programs, they learn to farm in response to the provisions of those programs. This paper will review the basic provisions, will explain their operation, and will show the relationship between market prices and the government support prices for U.S. farmers.

Background

Almost every national government provides some type of support for its grain farmers, but each national system is different, having been developed under unique historical, political, and economic conditions. The U.S. program has evolved under changing economic and political conditions over the last 56 years.

Today's farm program relating to grain production and marketing began in 1933 when farmers experienced extremely low prices. Over the years some new features have been added, but today's programs, although modified, contain most of the basic principles that were originated in the early 1930's.

Farm programs, conducted under the authority of the Commodity Credit Corporation (CCC), have two objectives: 1) to support the prices received by farmers and 2) to support farmer income if market prices are below "target prices."

With the passage of the Food Security Act of 1985, farm programs have taken a slightly new direction, deemphasizing the traditional objectives of price and income support. The new policy instruments are designed to: 1) reduce government-owned stocks and the related storage, handling, and interest costs; 2) lower U.S. market prices so that they are competitive in the world market; and 3) reduce the direct cash outlays of the government.

Commodity Credit Corporation

The CCC is a Federal corporation that is authorized, among other things, to engage in buying, selling, lending, and other activities with respect to agricultural commodities, products thereof, and related facilities. These charter powers enable the Corporation to engage in extensive operations for the purpose of increasing production, stabilizing prices, assuring adequate supplies, and facilitating the efficient distribution of agricultural commodities, foods, feeds, and fibers by using customary channels of trades. Many of the Corporation's operations are carried out in response to specific congressional mandates.

The Board of Directors of the Corporation includes the Secretary of Agriculture and the Deputy, Under, and Assistant Secretaries of Agriculture. The Secretary serves as the Chairman of the Board. The staff and operating officers for CCC are employees of the Agricultural Stabilization and Conservation Service (ASCS) of the U.S. Department of Agriculture (USDA) and most are located at the Kansas City Commodity Office in Kansas City, Missouri. It is this office that performs CCC's merchandising, processing, traffic management, and warehousing operations.

Each state has an ASCS office to carry out the functions of the CCC and to administer Federal farm programs. In addition, there is an ASCS office in each county to administer agricultural programs at the farm level. Each state and county has a committee composed of farmers, appointed by the Secretary of Agriculture, to advise ASCS officials on local and state conditions that affect the implementation of the farm program at the county and state levels.

Price Support

After a farmer harvests his crop, he can store the grain in a bin on his farm or in a commercial facility, usually a country grain elevator, or he can sell it. If the market price is below the loan rate for that crop and if the farmer has complied with all the provisions of the farm program for that year, such as setting aside or diverting from production the required amount of acreage, he may go to his County ASCS Office to obtain a regular CCC price support loan on the grain. If the grain is stored in a commercial facility, the farmer takes the warehouse receipt to the county office, and this receipt serves as collateral for the loan. Each county has a specific loan rate and the average of all the counties will meet the national loan level.

When a farmer receives the county loan rate, some costs are deducted. These costs include a loan service charge, an excise tax, which is a grain promotional levy established by some of the states, and delivery charges if the grain is stored in a commercial facility.

When the grain is stored in a commercial warehouse, a farmer makes an arrangement for payment of the storage fees. He can prepay the storage for

nine months and receive the full loan amount, or he can arrange with the county ASCS office to have the storage charges deducted from the loan. If a farmer forfeits the grain to CCC at the end of nine months for satisfaction of non-repayment of the loan, CCÇ will pay the elevator operator the storage charges that were deducted from the farmer's loan. However, the commercial elevator operator may insist on prepayment before he will issue a warehouse receipt, in which case the farmer will need to make arrangements to prepay the storage costs. Since he does not yet have the proceeds from the loan, the farmer may ask the county ASCS office to make a portion of the loan payable to the storing warehouseman to pay for the nine months of grain storage and/or any other expenses incurred.

The loan is for nine months with an interest rate that is based on the cost of money to the Commodity Credit Corporation (CCC) when it borrows from the U.S. Treasury. This interest rate may change every month. The interest rate in January and February 1988 was 7 1/8 percent, in December 1987, 6 7/8 percent and in November 1987, 8 percent. A farmer will pay the interest rate that is in effect when he takes out the loan, if the loan is repaid to CCC.

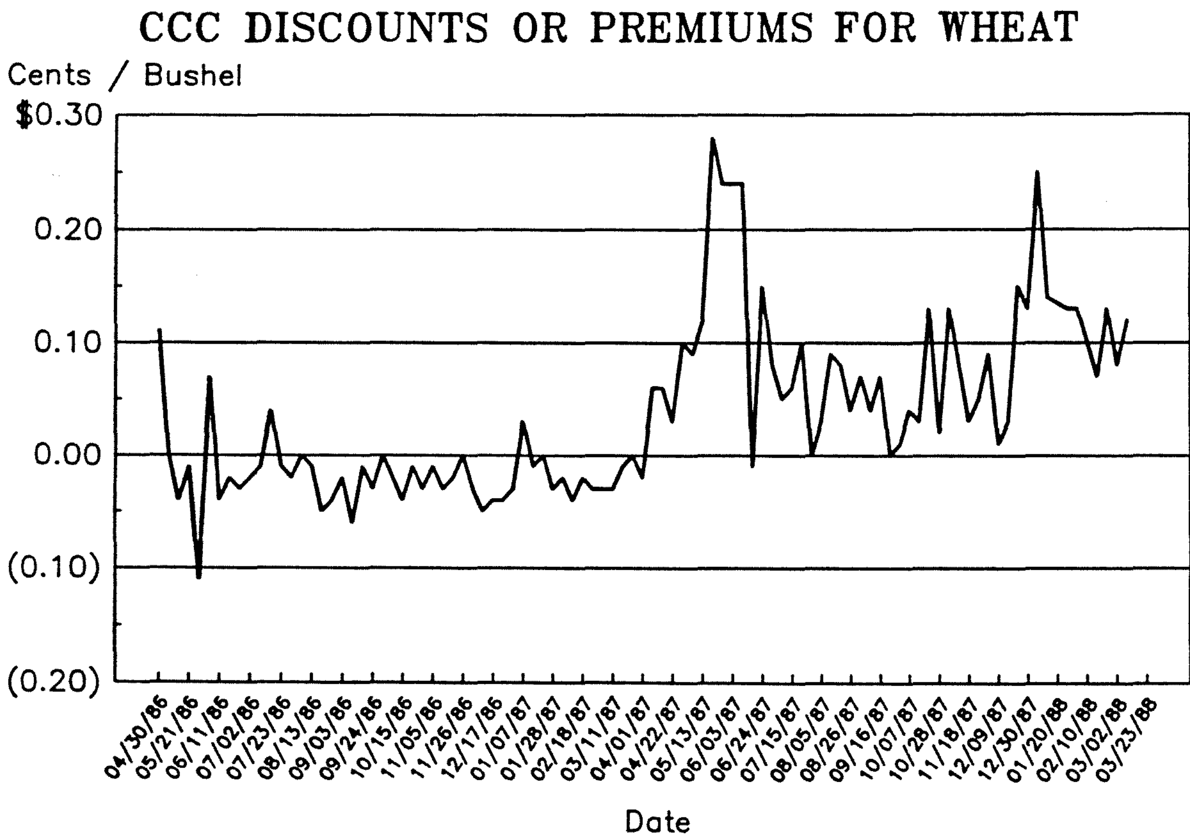
The loan is a nonrecourse loan. If at the end of the loan period a farmer does not repay the loan because the market price is below the loan value, he keeps the money and CCC takes the grain, which has served as collateral for the loan. If the market value is less than the loan value for that crop year, CCC has no recourse to ask the farmer to make up the difference between the lower market value and the loan value. In the case of a loan forfeiture, the farmer pays no interest.

A farmer may repay the loan with the accumulated interest any time during the nine-month period. A farmer may take out a loan for the current crops of wheat, barley, and oats until March 31 of the following calendar year and for the current crops of corn, grain sorghum, or soybeans until May 31 of the next calendar year. Sometimes a farmer may choose to repay (redeem) the loans by using a PIK (Payment-In-Kind) certificate. In this case, no interest is charged and only the PCP (Posted County Price) is paid. If the PCP is below the market price, a farmer has the incentive to repay the loan at the PCP with his PIK certificate and market the grain. He does not need to repay the difference between the PCP and the loan level .

PIK certificates are issued in dollar amounts rather than physical units (bushels). The rate at which certificates may be exchanged for commodities is determined by the PCP. This price is calculated by USDA using terminal market basing points and transportation differentials. Ostensibly, PCPs represent market prices. The relationship of PCPs to local cash prices determine which commodities are exchanged for marketing certificates and the rate of release of the commodity from storage.

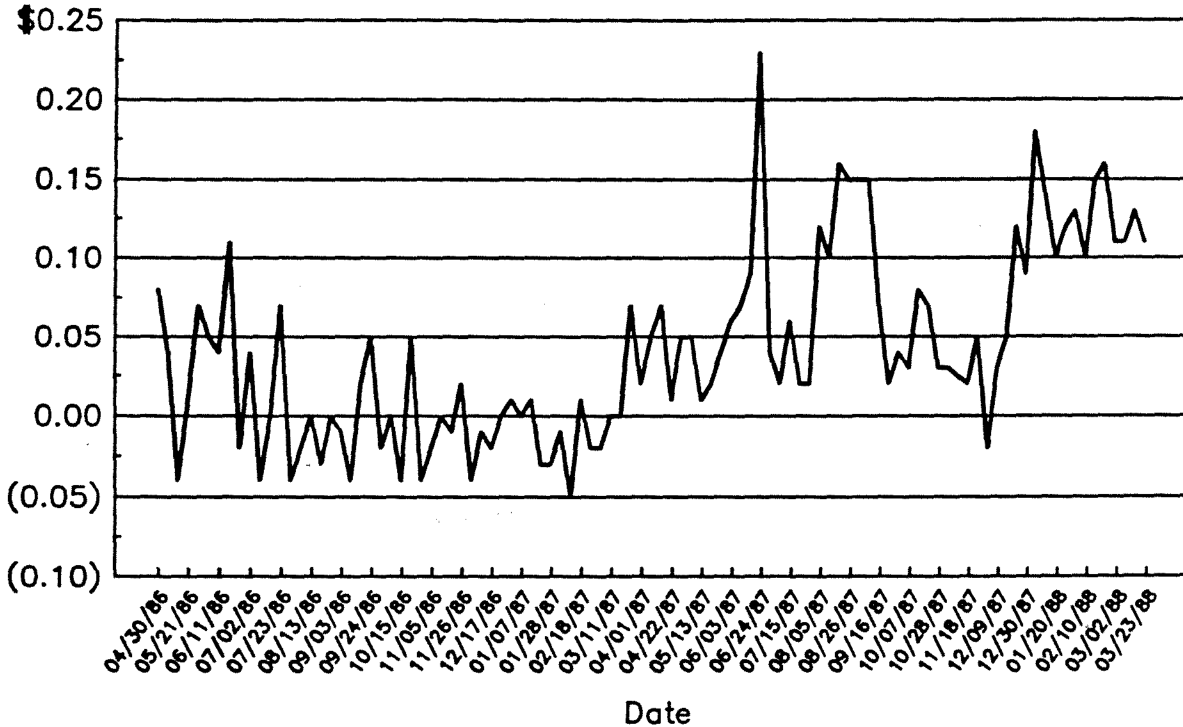
The county PCP is determined by subtracting the transportation cost from the CCC terminal price. However, the relationship between the terminal cash price as reported in USDA's Grain and Feed Market News often is different than the terminal price established by CCC. When the reported cash terminal price is higher than the CCC terminal price, the difference is represented as a premium on the following three graphs for wheat, corn, and sorghum. The greater the difference, the greater is the profitability for a farmer to

conduct a PIK-N-ROLL, that is, he can redeem his grain under loan with a PIK certificate and market his grain. This difference shows that great volatility and distortions exist between these two representations of terminal prices. In the wheat graph, the first peak in the middle of May 1987 was the time when wheat was needed by the government and the market place to meet the market demand brought on by the export subsidy granted to the USSR under the Export Enhancement Program.



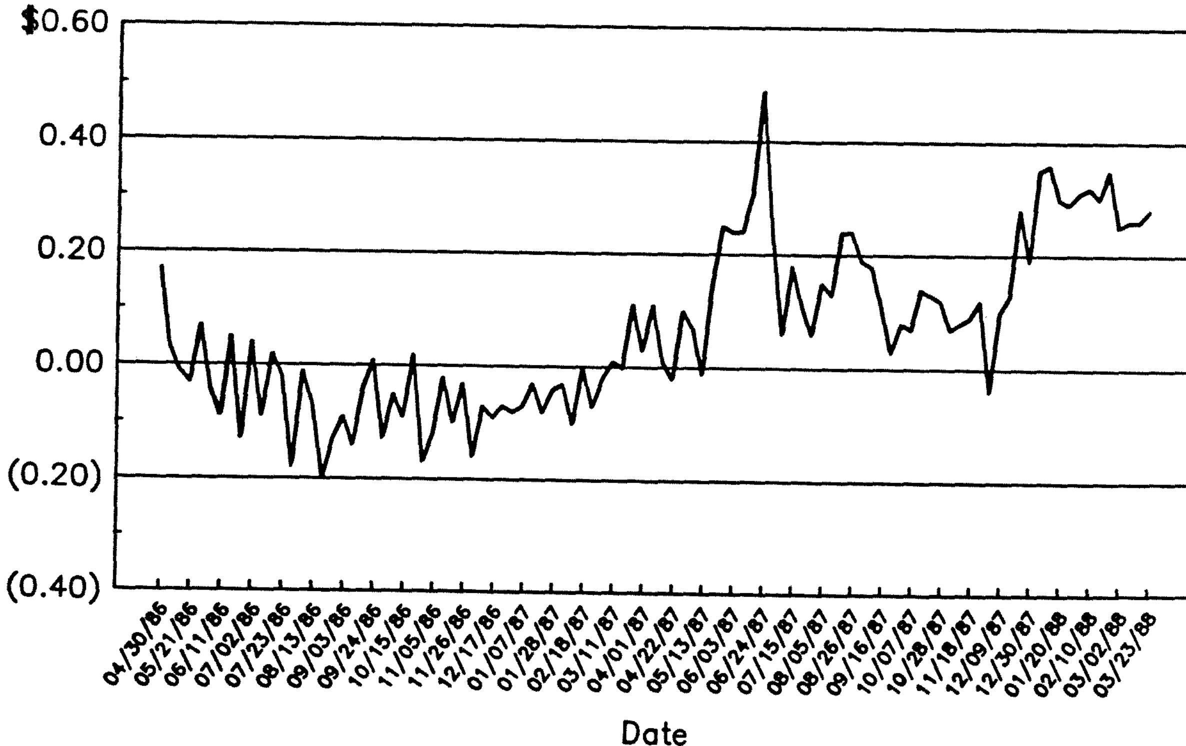
Discounts or Premiums calculated as: Grain & Feed Market News Price—CCC Terminal Price

CCC DISCOUNTS OR PREMIUMS FOR CORN



Discounts or Premiums calculated as: Grain & Feed Market News Price—CCC Terminal Price

CCC DISCOUNTS OR PREMIUMS FOR SORGHUM



Discounts or Premiums calculated as: Grain & Feed Market News Price—CCC Terminal Price

Loan Rate Formulas

The basic loan rates for the crop years of 1987-90 are to be set at 75 to 85 percent of five-year average market prices, excluding the high and low years. Loan rates may not be reduced by more than five percent from the previous year's basic loan rate. This five percent restriction resulted in a basic loan rate for 1987 of $2.85 per bushel ($104.72 per metric ton) for wheat and $2.28 per bushel ($89.76 per metric ton) for corn.

In addition, the Secretary of Agriculture has the authority, under the so-called "Findley provision" to reduce loan rates by up to 20 percent, if the average market price fell below 110 percent of the loan rate in the previous year or if a reduction in the loan level is necessary to maintain the United States' competitive position in world markets.

For 1986, USDA was required to use this authority to reduce loan rates by at least 10 percent. (Any use of this loan reduction authority must be accompanied by increased deficiency payments to maintain the same total revenue for producers, which will be explained later.) Loan levels for other feed grains -- sorghum, barley, oats, and rye -- are to be set at levels that the Secretary of Agriculture determines are fair and reasonable in relation to corn.

Reductions made under the Findley provision are not to be considered in determining loan rates for subsequent years. For instance, the use of the Findley provision to reduce loan rates must be computed each year by starting at the basic loan rate, which was $3 per bushel ($110.23 per metric ton) for

wheat and $2.40 ($94.48 per metric ton) for corn in 1986, $2.85 ($104.72 per metric ton) for wheat and $2.28 ($89.76 per metric ton) for corn in 1987, and $2.76 ($101.41 per metric ton) for wheat and $2.21 ($87.00 metric ton) for corn in 1988.

For soybeans, the basic 1986 and 1987 loan rate is $5.02 per bushel ($184.45 per metric ton). However, the Secretary of Agriculture may reduce this rate by up to five percent -- to $4.77 per bushel ($175.27 per metric ton) -- if it is determined that the higher loan would discourage exports and cause excessive build-ups in stocks. For 1988-90, the soybean loan rate is to be computed at 75 percent of the average market price of the previous five years, deleting the high- and low-price years, except that the loan level can be reduced by no more than five percent in any year. USDA also has authority for an additional five percent reduction per year, but in no event can the soybean loan levels be reduced to less than $4.50 per bushel ($165.35 per metric ton). The 1987 soybean loan rate is $4.77 per bushel ($175.27 per metric ton).

1988 Loan Rates

The 1988 price support loan and purchase levels for cereals have been limited to a three percent decline from the 1987 levels, rather than the five percent authorized by the Food Security Act of 1985. The 1988 crop "target prices" were lowered about 1.4 percent from the previously established level. These limitations were established under the provisions of the Omnibus Budget Reconciliation Act of 1987. This is not the first time that loan rates under the Food Security Act of 1985 have been affected by a budget Act. In 1986, the loan rates were reduced 4.3 percent under the Gramm-Rudman Act.

	1988 Loan Rates	
	($/bu.)	($/M.T.)
Wheat	$2.21	$81.20
Corn	1.77	69.68
Sorghum	1.68	66.14
Barley	1.44	66.14
Oats	.90	62.00
Rye	1.50	59.05

Marketing Loans

Under current legislation, farmers are permitted to repay cotton, honey, and rice loans for as little as 70 percent of the price support loan payment they received. Under this so-called marketing loan, farmers may redeem the loan at the market price if it is lower than the loan, but in no case can the farmer redeem the loan for less than 70 percent of the loan value. Farmers can retain the difference between the lower market price and the original loan level and then market the grain.

Marketing loans are authorized but have not been implemented for soybeans, wheat, and feed grains. The U.S. Congress has discussed requiring the use of this program for soybeans. It is reasoned that the marketing loan, which has worked so well for cotton and rice, would discourage the accumulation of soybeans in government inventory in years when soybean loan rates are high relative to historical relationships to corn. Also, a soybean marketing loan would assist in pricing U.S. soybeans at world prices, if the latter are below the CCC price support level. As long as there is the 20 percent reduction in the loan rates for wheat and feed grains because of the application of the Findley amendment, the marketing loan could be only 70 percent of the original loan prior to the discretionary reduction, which is only another 10 percent reduction. Thus, it is unlikely that the marketing loan will be implemented

for wheat and feed grains, since these grains already have a variety of other programs helping to curb production and regain export competitiveness.

Eligibility Requirements for Farmers to Receive a Loan

When the market price is below the desired support levels acceptable by public policy, which is established by farm legislation, the Secretary of Agriculture determines the amount of acres that a farmer must withdraw from production. For each specific crop, the Secretary, as mandated by Congress and with the advice and recommendations of the administrators of the Federal Budget, announces the acreage reduction program by setting the percentage of a farmer's base acres that cannot be planted to that specific crop. The area of land that cannot be planted must be devoted to conservation uses.

Acreage reduction or limitation for wheat for the 1988-90 crops is to be between 20 and 30 percent of the base acres, if the beginning stocks for the crop year are expected to exceed one billion bushels. For the 1988 crop of wheat the acreage reduction program required wheat farmers not to plant on 27.5 percent of the base acres. If wheat stocks are expected to be less than one billion bushels at the end of a crop year, maximum acreage limitation is specified at 20 percent for that year.

The Secretary is also authorized to establish a paid-land diversion program, if he determines that wheat supplies are excessive. For wheat, the Secretary was required to implement a paid-land diversion program for the 1986 crop but not for 1987 or 1988 crops. For 1986, the mandatory paid diversion covered 2.5 percent of the base acreage of wheat farmers participating in the

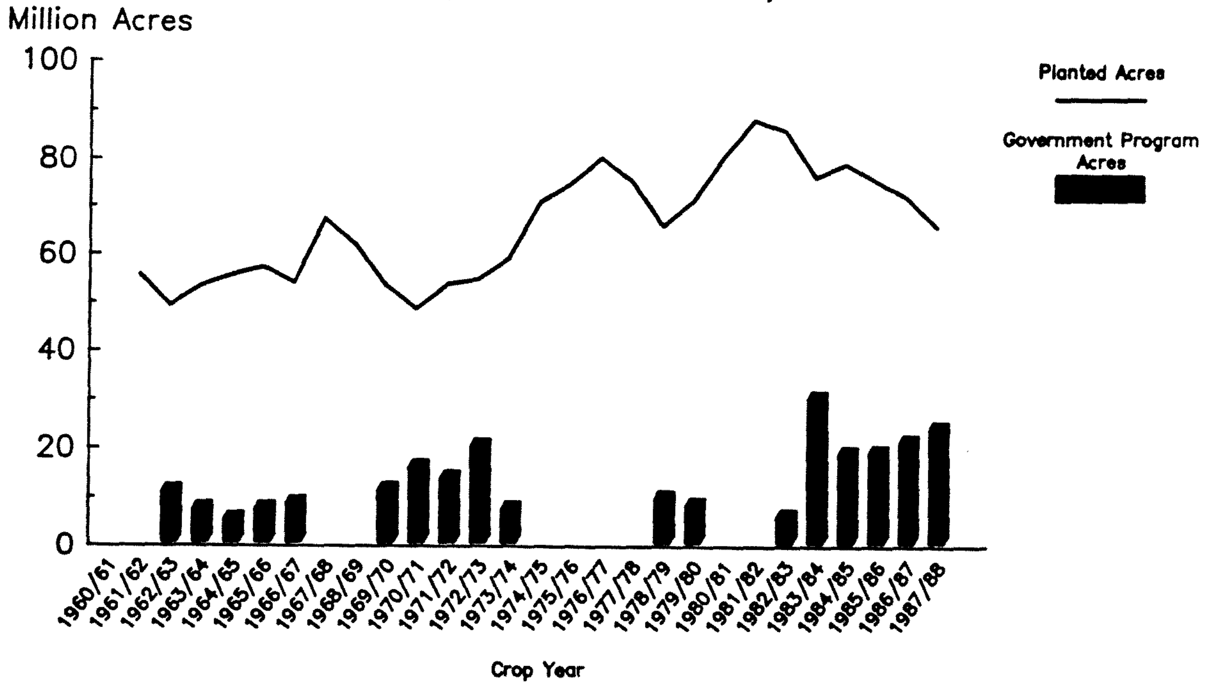
acreage reduction program. In addition, growers had the option of placing another 5 percent or 10 percent of their base acreage in the paid diversion program. Growers received payments for this diverted acreage, which was either 2.5 percent, 7.5 percent, or 12.5 percent of their base. Payment for paid-land diversion was in the form of payment-in-kind commodity certificates. PIK certificates can be sold or used by farmers to obtain grain of their choice from CCC inventory, to exchange through the CCC for cash, or to redeem their own outstanding loans.

Acreage limitations for feed grains for the 1987-90 crops are to be between 12.5 and 20 percent of the base acreage, if the beginning stocks for the crop year are expected to exceed two billion bushels. If the expected feed grain stocks at the beginning of the year will be less than two billion bushels, the maximum acreage limitation is specified at 12.5 percent for the 1986-90 crops. The acreage reduction for 1988 corn, sorghum, and barley is 20 percent but for 1988 oats, it is only five percent, since there is a supply shortage of U.S. produced oats.

The Secretary is authorized to establish paid-land diversion for feed grains, if he determines that supplies are excessive. For 1986 and 1987, payments were made in the form of commodity certificates to feed grain farmers who diverted additional acreage from production. The paid-land diversion is made on the basis of farm program payment yield at the following per bushel payment rates for 1988: $1.75 for corn; $1.65 for sorghum, and $1.40 for barley. These diversion payments all will be paid in PIK certificates.

To be eligible to receive a CCC-loan and income payments related to the target price, which will be discussed later, the farmer must abide by the percentage of the Acreage Reduction Program (ARP) and the mandatory portion, if any, of the paid-land diversion section of the program.

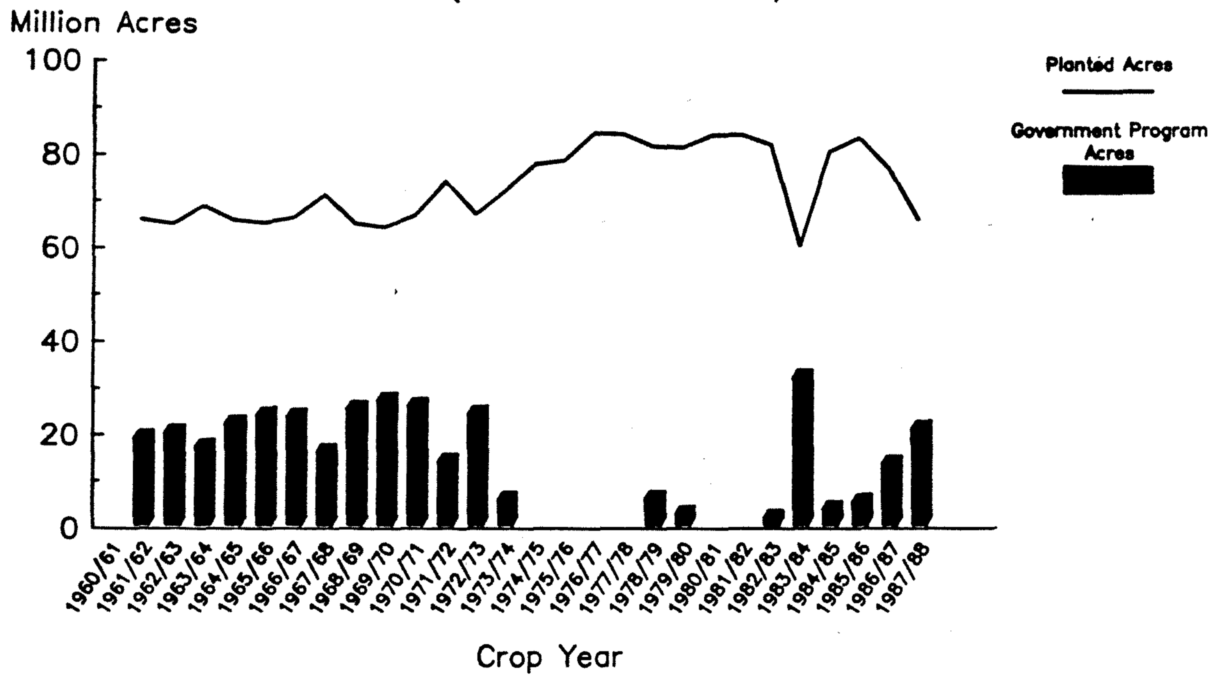
The following graph shows that fewer acres are planted because of farm program provisions. In recent years, acres planted to wheat, corn, and soybeans have dropped because a greater percent the acreage is enrolled under the farm program.



Government Programs include set-asides, diversions, PIK acres and Conservation Reserve sign-up.

CORN ACRES PLANTED OR PLACED IN GOVERNMENT PROGRAMS

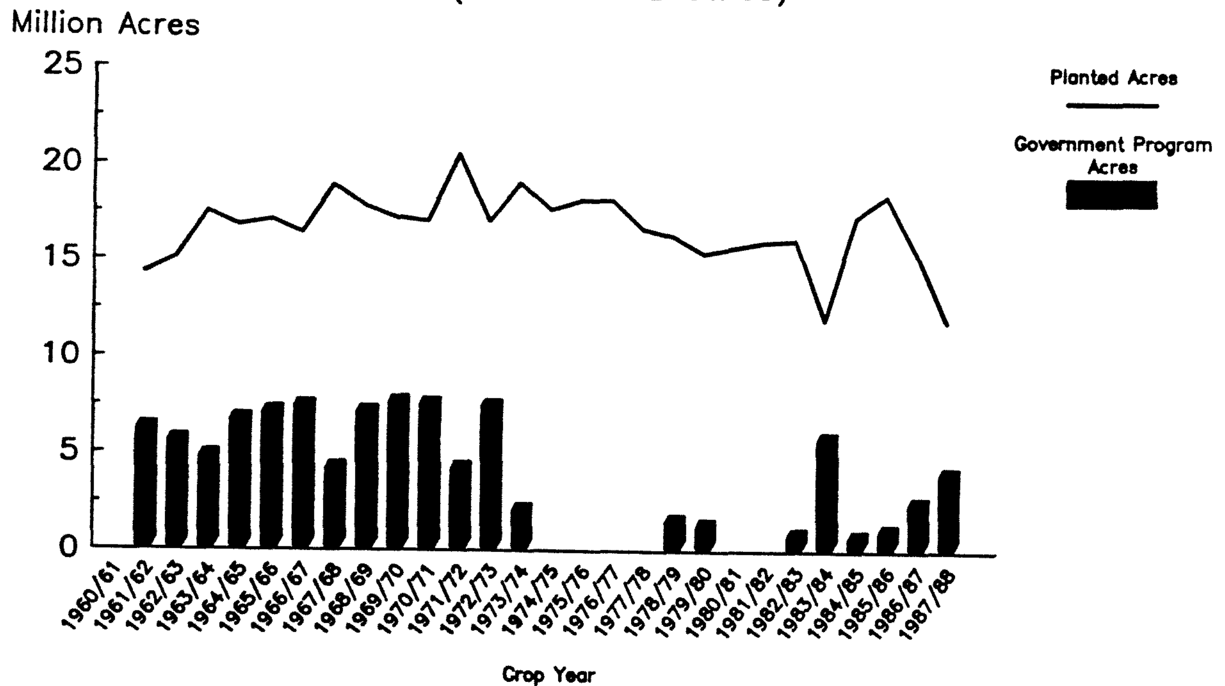
(1960/61 - 1987/88)



Government Programs include set-asides, diversions, PIK acres and Conservation Reserve sign-up.

SORGHUM ACRES PLANTED OR PLACED IN GOVERNMENT PROGRAMS

(1960/61 - 1987/88)



Government Programs include set-asides, diversions, PIK acres and Conservation Reserve sign-up.

Farmer-Owned Reserve

When the nine-month loan matures, the farmer has three or four choices. The first choice is to repay the loan with interest and market the grain. The second choice is to forfeit the grain to the CCC and keep the loaned money. The loan value of the forfeited grain becomes the purchase price for the CCC. The third choice is to redeem the loan with PIK certificates. The fourth choice, which may be available for wheat and feed grain producers but not soybean producers, is to have the loan extended under a three-year contract, which may be lengthened for an additional two or three years. This extension is called the Farmer-Owned Reserve (FOR). However, CCC has not used this program for the 1986 and 1987 crops. The objective of establishing the FOR was to permit the farmer to maintain ownership of the collateral grain. If the market price increased to the trigger release level at which grain could be released from FOR, the farmer could benefit from the price increase instead of the government (CCC). Also, the CCC would not have direct title to the grain and carry the grain on its inventory records.

Trigger release levels for all reserves, that is, the price at which farmers can sell their grain for FOR, are based on the target price and the current loan rate, regardless of the loan rate in effect at the time the reserve loan was made. The trigger release levels for all commodities in the Farmer-Owned Reserve Program shall be the higher of either 140 percent of the current national average loan rate for the commodity or the target price. Because the loan rates change each crop year, the trigger release levels would also change. Therefore, trigger release levels become effective at the beginning of the marketing year for each commodity and thus may increase or

decrease when the reserve agreement is in effect. If grain remains in the FOR, the 1988 trigger release levels are: wheat - $4.23 per bushel; corn - $2.93 per bushel; sorghum - $2.78 per bushel; barley - $2.51 per bushel, and oats - $1.55 per bushel. The five-day moving average of the market price is used to determine if the release price is reached. This average is a farm price equivalent and is calculated by subtracting an adjustment factor (price) each month from the five-day moving average price in the major market(s). Only under severe penalty can a farmer break this contract and sell for FOR grain when the market price remains below the trigger release price. When the farmer repays the extended loan under the FOR because the market price equals the trigger release price, he will need to repay the interest on the original nine-month loan and the interest incurred during the first year of the extension of the loan under the FOR and any extensions of the FOR beyond the original contract period.

The government has provided incentives to encourage farmers to enter their loan grain into the FOR, where it remains until the market price reaches the predetermined trigger release price. These incentives also have included a higher rate for entering the loan directly into the FOR without having a nine-month loan first, but this provision has not been used in recent years. Other incentives include waiving responsibility for the interest costs after the first year in the FOR and making a storage payment to the farmer of 26.5 cents per bushel per year ($9.74 per metric ton per year for wheat, $10.43 per metric ton per year for corn and grain sorghum (milo), and $12.17 per metric ton per year for barley) for each grain. For oats, the storage payment is 20 cents per bushel ($13.78 per metric ton) per year. Soybeans are not eligible for FOR.

The current farm law prohibits the entry of additional loan grain into the FOR if the amount of each grain exceeds a specified percentage of the total use, both domestic and export. The 1985 Act specifies minimum and maximum levels of wheat and feed grains that may enter the reserve in a marketing year. The upper limit for wheat is 30 percent of the estimated domestic and export use during the marketing year. For feed grains, the upper limit is 15 percent of the total estimated domestic and export use of feed grains during a marketing year. These upper limits may be raised (by up to 10 percent of the specified limits--or to 33 and 16.5 percent of the estimated wheat and feed grain use, respectively), if the Secretary deems the higher levels necessary to operate the FOR effectively.

The Act also establishes threshold levels for the implementation of a reserve. The Secretary of Agriculture is required to encourage participation in a reserve by offering producers increased storage payments and loan levels, interest waivers, or other incentives, if the total quantity of wheat and feed grains in the reserve is less than 17 and seven percent, respectively, of total domestic and export usage, and provided the average market price does not exceed 140 percent of the loan level for the commodity.

Since current amounts of wheat and feed grains in the FOR exceed the minimum levels, the Secretary announced on January 16, 1987 that 1986-crop wheat and feed grains (corn, sorghum, barley, and oats) pledged as collateral for price support loans would not be permitted entry into the FOR. On January 29, 1988, an announcement was made that the 1987 crops under loan will neither be extended nor allowed entry into the reserve.

Extension of FOR or Special Producer Storage Loan and Loan Extension

When a farmer's price support loan matured and the grain was not permitted to be placed into the FOR, such as was the case for the 1986 crops, then the CCC recalled the use of a former program and extended the loan another year. The interest that was applicable to the original loan continued to accrue until the end of the calendar year, and then the applicable interest rate changed to be the interest rate in effect on January 1. These were called special producer storage loans.

In the past, when the market price was below the trigger release price, the loan grain in the FOR, whether it was a three- or five-year FOR contract, was extended by the Secretary of Agriculture one year at a time. Storage payments to farmers continued, and interest accrued at the applicable rate for the month after the month in which the FOR contract expires. That is, if the FOR contract expired on June 30, the applicable interest rate will be the CCC interest rate for commodity loans on July 1.

Generally CCC is no longer extending FOR contracts. FOR loans on 1983 and prior crop years of wheat, oats, and barley maturing on or after March 31, 1988, may not be extended. But producers with reserve loans on 1984 crops of wheat, oats, and barley, will be offered an optional one year extension at maturity. Currently such extensions will not be considered as special producer storage loans.

USDA also has curtailed the use of the special producer storage loans for wheat and feed grains. All such loans maturing on or after March 31, 1988,

will not be extended. This applies to all commodities and all crop years. Thus, 1985 and 1986-crop wheat, feed grain, and soybean loans that have been extended beyond their original maturity dates will not be extended further when they mature. Additionally, 1987-crop wheat, feed grain and soybean loans will not be extended and will not be permitted to enter the FOR.

CCC Sales Policy for CCC Owned Inventory

The CCC may sell its stocks of grain in inventory when the market price is at or above a specified level. So long as there is grain in the FOR, the CCC sales price is above the trigger release price of FOR grain, so that CCC sales will not interfere with the release of the FOR stocks. If market prices rise to levels allowing the CCC to sell grain, the CCC may sell for "unrestricted use", either domestic or export. The minimum price that the CCC will consider accepting is the market price, as determined by the CCC, but not less than specified formula price, plus transit value, if any. The formula that the CCC uses to sell its inventory follows.

Commodity	Formula	Price (based upon U.S. national average loan level)
Wheat	234 percent of the 1987 county loan rate for U.S. No. 1 wheat where stored.	$2.28 x 234% = $5.34 (per bushel (bu.) $83.78 x 234% = $187.15 per metric ton (M.T.)

Corn	209 percent of the 1987 county loan rate for U.S. No. 2 yellow corn where stored.	$1.82 x 209% = $3.80 per bu. $71.65 x 209% = $149.75 per M.T.
Sorghum	209 percent of the 1987 county loan rate for U.S. No. 2 sorghum where stored.	$1.74 x 209% = $3.64 per bu. $68.50 x 209% = $143.17 per M.T.
Barley	239 percent of the 1987 county loan rate for U.S. No. 2 barley where stored.	$1.49 x 239% = $3.56 per bu. $68.44 x 239% = $163.56 per M.T.
Oats	223 percent of the 1987 county loan rate for U.S. No. 3 oats where stored.	$0.94 x 223% = $2.10 per bu. $64.76 x 223% = $144.43 per M.T.
Soybeans	105 percent of the 1986 county loan rate for U.S. No. 2 or better soybeans where stored plus carrying charges as shown below.	$4.77 x 105% = $5.01 per bu. $175.267 x 105% = $184.03 per M.T.

	Monthly Carrying Charge-Soybeans		Soybean Monthly Price	
	$/Bu.	$/M.T.	$/Bu.	$/M.T.*
September	$.1319	$ 4.85	$5.14	$188.86
October	.1874	6.89	5.20	191.07
November	.2429	8.93	5.25	192.90
December	.2984	10.96	5.31	195.11
January	.3539	13.00	5.36	196.95
February	.4094	15.04	5.42	199.15
March	.4649	17.08	5.47	200.99
April	.5204	19.12	5.53	203.19
May, June, July, August	.5759	21.16	5.59	205.40

* $/M.T. are approximate because of rounding the $/Bu.

Income Payments

The market price is defined as "deficient" when it is below an established level called the target price. If the market price is "deficient", then eligible farmers earn "deficiency payments" on the actual acreage planted, which is within their permitted acreage. The farm law established a procedure

to pay farmers when the market price is below the target price. The deficiency payment rate is equal to the target price minus the higher of: (1) the national average market price received by farmers during the first five months of the marketing year or (2) the basic price support loan.

If the basic price support loan were reduced under the Findley Amendment, then farmers would receive an additional deficiency payment to cover the difference between the basic loan rate and the higher of the Findley loan level or the season's average price.

The minimum target prices for wheat and corn, established by the 1985 Food Security Act, were as follows.

	Wheat		Corn	
	(per bu.)	(per metric ton)	(per bu.)	(per metric ton)
1986	$4.38	$160.94	$3.03	$119.29
1987	4.38	160.94	3.03	119.29
1988	4.29	157.63	2.97	116.92
1989	4.16	152.85	2.88	113.38
1990	4.00	146.97	2.75	108.26

The payment rates for grain sorghum, oats, and, if designated, barley must be set so as to be fair and reasonable in relation to the payment rate for corn.

However, because of the provisions called for by the Omnibus Budget Reconciliation Act of 1987, the 1988 crop "target prices" were lowered about 1.4 percent from the previously established level. Price support loan and purchase levels have generally been limited to a three percent decline from the 1987 crop levels, rather than the five percent authorized by the Food Security Act of 1985. The 1988 target prices and loan rates are:

Commodity (in $)	Target Prices		Statutory Loan		Findley Loan Rate	
	(BU)	(MT)	(BU)	(MT)	(BU)	(MT)
Wheat	$4.23	$155.43	$2.76	$101.41	$2.21	$81.20
Corn	2.93	115.35	2.21	87.00	1.77	69.68
Sorghum	2.78	109.44	2.10	82.67	1.68	66.14
Barley	2.51	115.28	1.80	82.67	1.44	66.14
Oats	1.55	106.79	1.13	77.85	0.90	62.00
Rye	--	--	--	--	1.50	59.05

Commodity (in $)	Deficiency Payment First		Deficiency Payment Findley		Deficiency Payment Total	
	(BU)	(MT)	(BU)	(MT)	(BU)	(MT)
Wheat	$1.47	$54.01	$0.06	$ 2.20	$1.53	$56.22
Corn	0.72	28.35	0.38	14.96	1.10	43.31
Sorghum	0.68	26.77	0.40	15.75	1.08	42.52
Barley	0.71	32.61	0.05	2.30	0.76	34.91
Oats	0.30	20.67	N/A	N/A	0.30	20.67
Rye	--	--	--	--	--	--

The deficiency payment is based upon each farm's program payment yield. A farm's yield is based upon a five year county average, deleting the high and low years. A farmer also can choose to document his actual yield, if this is higher than the county average. A farmer whose yield has been reduced by more than five percent from the 1985 program payment yield will receive payments in an amount necessary to provide the same total return he would have received with a five percent reduction. Actual crop yields for 1987 and subsequent years will not be used to establish 1988 and future farm program payment yields.

Payment Limitations

Payment limitations are applied to deficiency and land diversion payments. The following payment limits apply:

A $50,000 per farmer limit applies to all land diversion payments, as well as that portion of the deficiency payment comprising the difference between the target price and the statutory (basic) loan rate. In the case of corn, the deficiency payment covered under the $50,000 payment limit would be the difference between the $2.93 per bushel target price and the 1988 statutory loan rate of $2.21 per bushel, which equals 72 cents per bushel. For wheat, it would be the difference between the $4.23 target price and $2.76 per bushel, which equals $1.47. (See the listing on previous page.)

A $250,000 per farmer ceiling applies to all payments received under the $50,000 cap, as well as payments received under the "Findley" 20 percent loan rate reduction. Thus, in the case of the corn example used above, the $250,000 payment ceiling also will include the difference between the $2.21 per bushel 1988 loan rate and the actual, post-Findley loan rate of $1.77 per bushel, which equals 44 cents per bushel. If the market price is greater than the $1.77 loan, the deficiency payment is reduced by that amount. For wheat it is the difference between the 1988 basic loan rate of $2.76 and the actual, 1988 post-Findley loan rate of $2.21, or $0.55 per bushel.

Since the average market price received by farmers is expected to be above the loan rate, the deficiency payment is determined by the difference between the target price and the market price and not the loan rate. However, USDA estimated that the market price for corn will be above the Findley reduction loan, and this portion of the deficiency payment will be 38 cents. However, USDA also estimated that the market price for wheat will be above the Findley reduction loan and this portion of the deficiency payment will be six cents. USDA has estimated the total deficiency payment for 1988 crops to be $1.10 per

bushel for corn and $1.53 per bushel for wheat. (See the listing on previous page.)

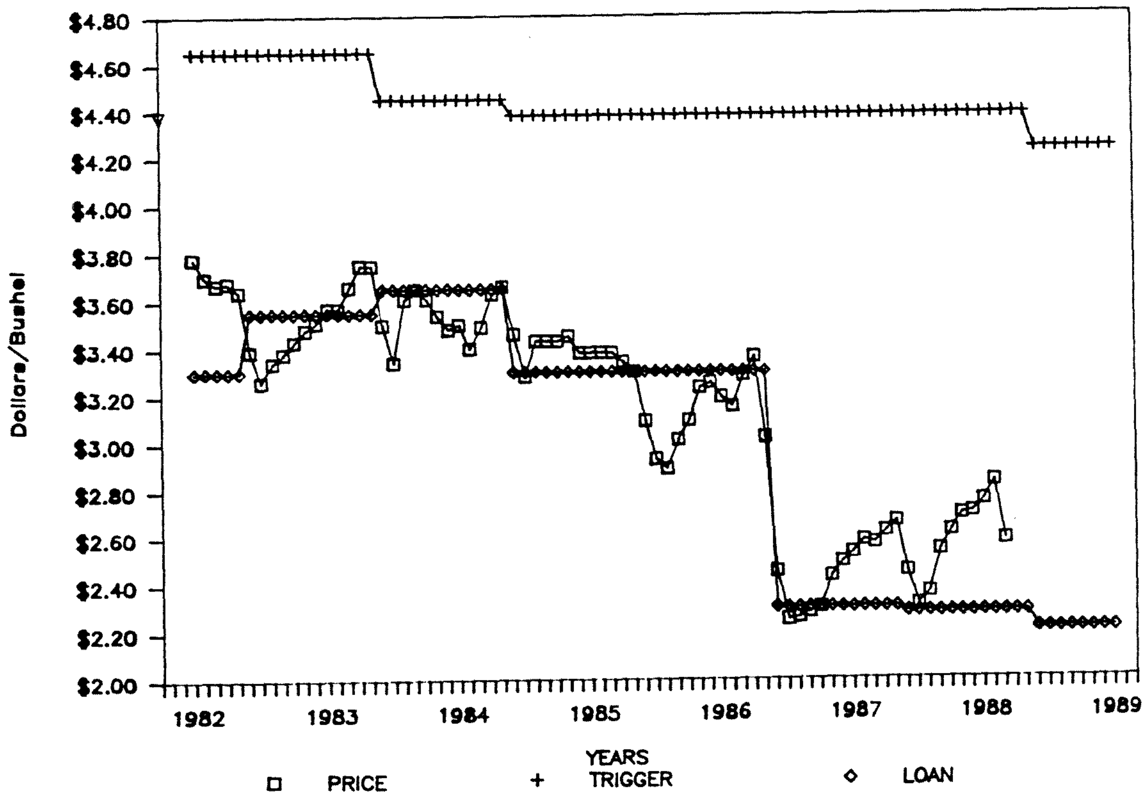
Excluded from any payment limitation are the values of price support loans and storage payments. Payments received for enrolling acreage under the conservation reserve program has a separate $50,000 annual limitation.

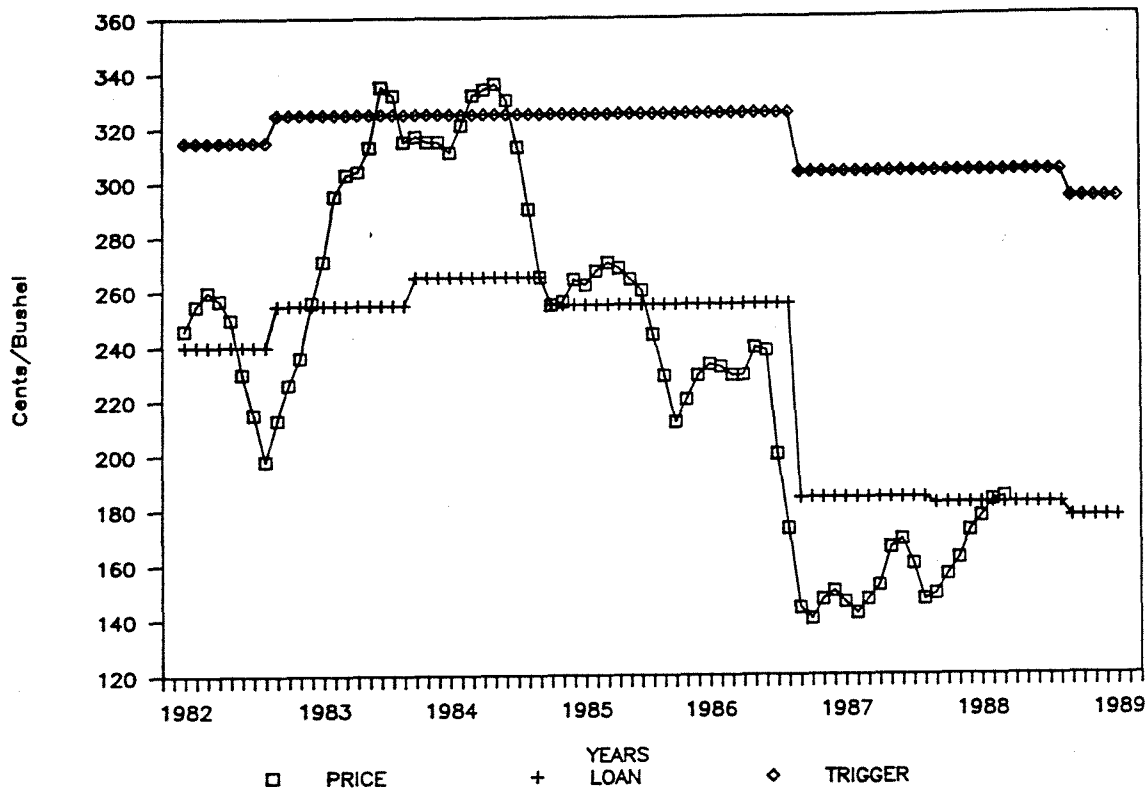
Relationships Between Market Price and Loan Levels and Trigger Prices

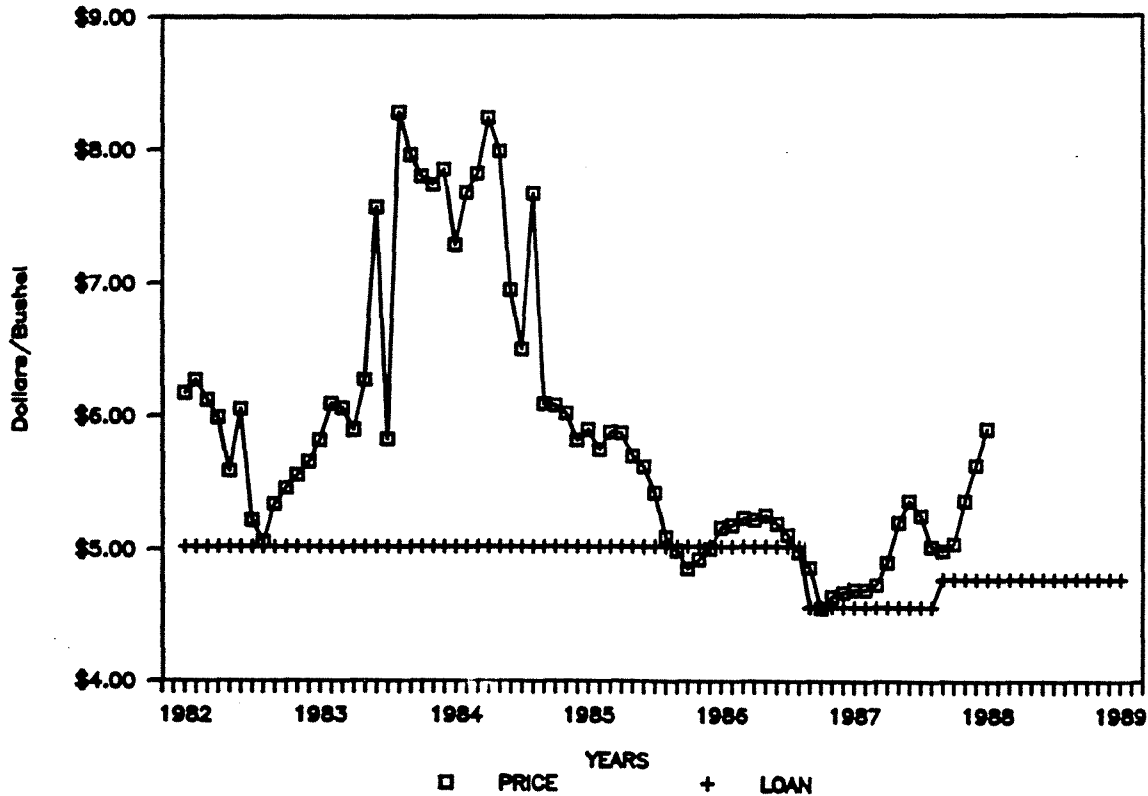
It is also important to know the relationship between the farm program provisions and the market price, if one is buying grain in the United States. In the following three graphs, the relationship between the market price and the loan level or the trigger release price can be seen. Grain can be removed from the Farmer-Owned Reserve (FOR) when the trigger release price is reached. These graphs show that when supply is in excess of demand, as defined by the loan level or the trigger release price, the market price follows loan level or the trigger release price.

When the market price is below the loan level, then less grain is offered for sale. Thus, usually the only time quantities of grain under a price support loan are offered for sale is when the market price is above the loan level provided by the Federal government to the eligible farmers. If the market price of the grain equals or exceeds the trigger release price, the grain in the FOR can be sold into the market place. Thus, the trigger release price limits price increases or acts as a price ceiling as long as grain is available under the FOR program.

The loan level for wheat has had direct impact on the market price for wheat since 1983; for corn in the early 1980's and since 1985; and for soybeans primarily in the last two years. When corn prices strengthened in 1983 and 1984, because a drouth reduced production, the FOR trigger release price limited the increase in the market price for corn. However, farmers may use the option to redeem grain under loan with PIK certificates, which would cause a downward pressure on cash prices. These relationships are shown in the following three graphs.




CORN: PRICE, LOAN, TRIGGER
Cents/Bushel
360
340
320
300
280
260
240
220
200
180
160
140
120
1982
1983
1984
1985
1986
1987
1988
1989
YEARS
PRICE
LOAN
TRIGGER


SOYBEANS: PRICE, LOAN
Dollars/Bushel
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
1982
1983
1984
1985
1986
1987
1988
1989
YEARS
PRICE
LOAN

Conclusions

After reading and studying this report on the U.S. farm programs for grain farmers, one can understand why agriculturalists are confused by these programs. As with most legislation passed by Congress and signed into law by the President, farm programs are the result of the art of political compromise to meet the many and often conflicting objectives of the persons whom Congressmen and Senators represent. The Secretary of Agriculture also has powers granted to him under the charter of the Commodity Credit Corporation over and above those specified or granted in the specific farm laws. These additional powers are limited only by the limitations specified in the farm laws or by the pressures of public opinion. An example of the Secretary's broad authority was introducing the PIK certificates without any enabling legislation.

A philosophy held by many persons related to agricultural production and marketing is that prices, determined by the interaction of world supply and demand, should guide farmers in their decision-making of which crops to plant and how much to plant. However, in recent years, farmers have calculated that their greatest returns occur when they participate and meet the requirements specified in farm programs.

The U.S. government is trying to extract itself from influencing the production and marketing decisions of farmers and merchants. The removal of government influence on day-to-day decision-making will most likely occur with a long-term expansion of demand from countries whose economies are recovering and whose consumers can afford to upgrade their diets. If economies of importing countries are going to grow, macro economic and fiscal policies of

those countries and of the U.S. may be as important, if not more important, than any particular farm law passed by the U.S. government. The U.S. production and marketing system is capable of producing and delivering much larger quantities of grains to the world market than what is now being demanded.