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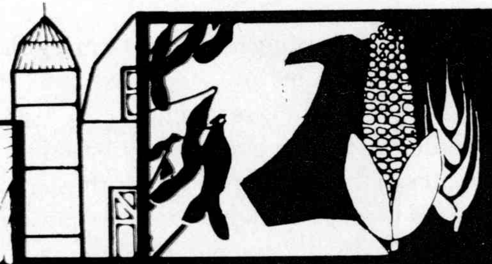
AGRICULTURAL LETTER



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THE AGRICULTURAL POLICY ARENA has become very active in recent weeks. As part of the budget reconciliation, the Congress passed legislation mandating a paid acreage diversion program and a modest increase in price support loans for 1983 feed grain and wheat crops. The legislation also contains provisions that hold the line on the support price for milk and authorize assessments on dairy farmers if milk production continues to exceed utilization. In addition, the legislation calls for more financing of exports by the CCC and makes further reductions in the food stamp program.

Several features of the 1983 feed grain and wheat programs incorporated in the new legislation were designed to reduce grain surpluses and help alleviate the distressed earnings of crop farmers. These include acreage reduction, paid acreage diversion, higher price support loans, and advance payments.

The acreage reduction and paid diversion programs will work in tandem to encourage farmers to lower their 1983 plantings of feed grains and wheat. As was the case with the acreage reduction program this year, the programs will be voluntary. But farmers must comply in order to be eligible for price support loans, deficiency payments—if applicable—and entry into the grain reserve. The two programs require complying farmers to reduce their 1983 feed grain plantings by an amount at least equal to 15 percent of their acreage base. For wheat farmers, the requirement is 20 percent. A farm's acreage base for feed grains is the higher of the feed grain acreage harvested in 1981 or the average of the feed grain acreage harvested in 1980 and 1981. (1982 acreage is not considered in the acreage base in order to avoid penalizing farmers who complied with the 1982 reduced acreage program or allowing farmers who did not comply in 1982 to have larger acreage bases.) Farmers that comply with the minimum reduction in acreage must devote that acreage to conservation uses.

A new feature of the 1983 programs for encouraging smaller plantings is the paid diversion. Complying feed grain and wheat farmers will receive a diversion payment on 5 percent of their acreage base. Half the diversion payment will be made at sign-up, the rest following harvest. For corn, the payment will be $1.50/bushel times the normal corn yield times 5 percent of the corn acreage base. The same formula applies to the diversion payment for wheat, except the payment rate is $3 per bushel rather than $1.50. In both cases, however, the legislation permits the Secretary of Agriculture to lower the payment rate by up to 10 percent if he determines the lower rate will still accomplish the objectives of the program.

As an example of the mechanics of the program, assume that a farmer harvested 230 acres of corn in 1980 and 210 acres in 1981. His corn acreage base is 220 acres since the two-year average is higher than the 1981 acreage. In order to be eligible for feed grain program benefits next year, the farmer must reduce 1983 corn plantings to 187 acres, which is 15 percent less than his acreage base. The farmer must devote 33 acres—the difference between 220 acres and 187 acres—to conservation uses. He will be eligible to receive a payment for diversion on 5 percent of his acreage base, or 11 acres. If diversion payments are made, and if his established corn yield is 125 bushels per acre, he will receive a payment of up to $2,062.50 ($1.50/bushel times 125 bushels times 11 acres).

As in 1982, farmers who comply with the acreage reduction measures would be eligible for price support loans and deficiency payments. Provisions in the legislation would raise the 1983 CCC price support loan rate for corn from $2.55 per bushel to $2.65 per bushel. For wheat, the CCC price support loan rate would increase from $3.55 per bushel to $3.65 per bushel. These loan rates—for non-recourse commodity loans from the Commodity Credit Corporation with a normal maturity of nine months—typically serve as a floor price for grains if a sufficient number of farmers are eligible for CCC loans. When supplies are burdensome and push prices below the loan rate, participating farmers can forfeit their grain to the CCC, which is prohibited from selling it in commercial channels until prices are considerably above the loan rate.

Under existing four-year farm legislation, target prices for feed grains and wheat rise to $2.86 per bushel and $4.30 per bushel, respectively, in 1983. (The Secretary could raise them even higher based on changes in estimates of the cost of producing these crops.) Target prices are used as the basis for determining deficiency payments. Deficiency payments are made to producers of feed grains and wheat when the national weighted average market price received by farmers during the first five months of the marketing year falls below the target price. The payment rate per bushel is specified as the difference between the target price and the higher of the five-month average price received by farmers or the price support loan rate. The payment is equal to the per-bushel rate times the established per-acre yield times the number of eligible acres. As specified in the legislation, producers could get half of the expected deficiency payments in advance at the time of sign-up in the acreage program. Using the earlier example, the corn farmer would be eligible for an estimated deficiency payment rate of 21 cents per bushel, which is derived from the difference between the target price ($2.86/bushel) and the price support loan rate ($2.65/bushel). The 21 cents/bushel payment rate times a normal yield of 125 bushels per acre times 187 acres would provide the farmer with a total deficiency payment of $4908.75. If prices improve and deficiency payments don't materialize as expected, then producers who received advances have, in effect, received interest-free loans, and must repay them before the end of the marketing year. If those who received advances do not comply with the acreage reduction program after sign-up, then they must repay the USDA immediately with interest. The interest rate charged is expected to exceed the prevailing rate charged on CCC loans at the time of sign-up. These advances would help considerably the cash-flow situation of crop farmers.

Dairy price supports came under consideration again in this latest legislation. As part of the four-year legislation in 1981, the minimum dairy support price was set at $13.10 per hundredweight for fiscal 1982 and was to increase to $13.60 per hundredweight in fiscal 1983 (which starts in October), $14.00 in fiscal 1984, and $14.60 in fiscal 1985. In order to cut the surplus of dairy products, the dairy price support in the new legislation would remain at $13.10 per hundredweight for both fiscal 1983 and fiscal 1984. In fiscal 1985, the support would be reestablished as a percentage of the parity that $13.10 represented on October 1, 1983. To encourage further the reduction of dairy product surpluses, the Secretary of Agriculture may assess producers 50 cents per hundredweight this October to cover the government's cost of purchasing dairy products if projected government purchases of dairy products are above 5 billion pounds (milk equivalent) for the fiscal year. Also, the Secretary would be authorized to assess another 50 cents per hundredweight in April if government purchases were likely to exceed 7.5 billion pounds for the fiscal year. However, if individual producers show they have reduced their herds 10 percent by April 1, they would not be subject to the second 50 cent assessment scheduled at that time. Although these adjustments in the program may have little impact within the next year, they likely will reduce dairy surpluses in the longer run.

Exports may, in effect, be subsidized through provisions in the legislation. For fiscal years 1983-85, the Secretary of Agriculture is to use between $175 million and $190 million of Commodity Credit Corporation funds annually for export activities. This may include "buying down" interest rates on export credit offered to buyers, which helps to make the U.S. farm exports more competitive.

The Food Stamp Program also was changed by the new legislation. The changes may reduce projected program costs about $1.9 billion over the next three fiscal years. The legislation authorizes reductions in the rate at which benefits are adjusted for changes in the cost of food—one of the main escalators in food stamp benefits—and reductions in payments for administrative expenses to the states that fail to reduce sufficiently errors in program administration. The legislation also delays increases in adjustments allowed in computing income levels to determine eligibility, removes benefits under $10 in the first month of eligibility, and tightens the eligibility requirements for students. Ceilings on food stamp expenditures—which have generally been overrun in the past—were set at $12.8 billion for fiscal 1983, $13.1 for fiscal 1984, and $13.9 billion for fiscal 1985.

The compromise package, which is part of the budget reconciliation bill, as yet has not been signed by the President. However, the USDA is already working on operating procedures to implement its provisions, most of which would take effect in October.

FARM PRODUCTION EXPENDITURES rose modestly in 1981. A recent survey by the USDA shows expenditures totaled $138.5 billion last year, up only 1.5 percent from the year before and 3.7 percent from 1979's level. Expenditures for interest, fuels and energy, and agricultural chemicals paced the rise in 1981. For this

year, with increases in some farm input prices, expenditures may be up nominally even though farmers conserve on input use.

The accounting procedures used in the annual survey of farm production expenditures differ somewhat from those used in the farm income accounts. As a result, the expenditures cannot be used directly to adjust estimates of net farm income. For example, the modest gain reported in the latest expenditures survey is much smaller than the 9 percent rise reported for production expenses in 1981 in the farm income accounts.

Expenditures for feed, the largest component of farm expenditures, fell 5 percent from the year before to $19 billion last year. Included in that was $10.1 billion for mixes or formula feeds, $5.5 billion for grains, $2.1 billion for hays and forages, and $1.2 billion for other supplements. Purchases of livestock, the second largest component, fell a fifth last year to $15.4 billion. Feeder cattle and calves accounted for about $7.8 billion, down from the year before. Beef cattle and calves and dairy cattle and calves made up another $2.3 billion each. Purchases of hogs and pigs were $1.5 billion, nearly one and a half times the level of the year before.

Larger outlays were reported for several crop inputs. Fertilizer, lime, chemical, and seed expenditures were $17.8 billion in 1981, up about 3 percent from the year before. However, fertilizer expenditures, the major portion of crop inputs, were off nominally from the year before. Farmland rental—including cash rents and share rents—totaled $11.2 billion in 1981, down from $11.9 billion the year before. Cash rents rose nearly a fifth in 1981, but share rents were down by a similar percentage. Share rents, however, account for about two-thirds of rental expenditures. The fuel and energy bill rose substantially from $9.9 billion in 1980 to $10.9 billion in 1981. Higher diesel fuel prices and electricity rates accounted for much of that. Real estate and other taxes in 1981 were virtually unchanged from the year before. Interest expenditures rose by nearly a fourth. Interest on farm real estate and operating loans was $13.1 billion and represented almost a tenth of total farm production expenditures. In contrast, in 1980 interest expenditures were about 8 percent of total farm expenditures.

Net purchases of farm machinery and equipment rose nominally to $11.1 billion in 1981. This included $4.1 billion for tractors, $2.0 billion for harvesting equipment (combines primarily), and $1.0 billion for tillage equipment. Capital expenditures for buildings, fencing, and other farm structure improvements amounted to $6.8 billion, little changed from the year before. Expenditures for new grain storage facilities were down about 3 percent from the year before. Combined purchases of autos and trucks were $2.4 billion, down slightly from year-earlier levels.

Farms with $100,000 or more in annual sales in 1981 made up 15 percent of all farms in the U.S., but accounted for 62 percent of the total farm expenditures. Four years ago, these farms made up 8 percent of all U.S. farms and accounted for 52 percent of total farm expenditures. In 1981, farms with sales of $40,000 to $99,999 accounted for 18 percent of all farms and 21 percent of the production expenses. At the other extreme, 23 percent had sales less than $10,000 last year and accounted for 7 percent of total farm production expenses.

For the current year, farm production expenditures may rise nominally. While the overall index of prices paid by farmers in August was up 3 percent from both December's level and the year earlier, this may be offset somewhat by reductions in the amounts of some farm inputs used. Prices paid for fertilizers in August were down 1 percent and consumption this year is also indicated to be down. Prices paid for fuels and energy were nominally below the year-earlier level but minimum tillage and similar practices have increased, reducing the number of trips over fields and the amount of fuel consumed. The prices of feeds in August were down nearly a tenth from the year before.

However, prices paid for livestock were up 4 percent in August from a year ago, so that any increases in livestock numbers may raise livestock expenditures for the year. Interest charges were up considerably from the year-earlier level. Another rise in farm debt this year would result in a large increase in interest expenditures for farmers. Prices paid for tractors and other machinery were up nearly 8 percent in August, but farmers have sharply curtailed machinery outlays. Overall, the largest year-to-year increases in expenditures are expected to stem from higher feeder livestock prices and interest rates.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1977=100	August	135	− 0.7	− 2
Crops	1977=100	August	121	− 2.4	− 7
Livestock	1977=100	August	148	0	+ 1
Index of prices paid by farmers	1977=100	August	156	0	+ 3
Production items	1977=100	August	151	0	+ 2
Producer price index* *(finished goods)*	1967=100	July	282	+ 0.6	+ 4
Foods	1967=100	July	261	− 1.0	+ 1
Processed foods and feeds	1967=100	July	255	− 0.4	+ 1
Agricultural chemicals	1967=100	July	292	− 0.9	+ 1
Agricultural machinery and equipment	1967=100	July	310	+ 0.5	+ 8
Consumer price index** *(all items)*	1967=100	July	292	+ 0.6	+ 7
Food at home	1967=100	July	283	+ 0.1	+ 4
Cash prices received by farmers					
Corn	dol. per bu.	August	2.19	−12.4	−24
Soybeans	dol. per bu.	August	5.39	−10.0	−20
Wheat	dol. per bu.	August	3.29	+ 0.9	− 9
Sorghum	dol. per cwt.	August	3.88	− 2.0	−15
Oats	dol. per bu.	August	1.40	−10.8	−19
Steers and heifers	dol. per cwt.	August	63.20	0	0
Hogs	dol. per cwt.	August	61.10	+ 5.5	+24
Milk, all sold to plants	dol. per cwt.	August	13.30	+ 0.8	− 1
Broilers	cents per lb.	August	26.3	− 8.0	− 8
Eggs	cents per doz.	August	50.7	− 8.2	−15
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	144	+ 0.8	+ 1
Net farm income	bil. dol.	2nd Quarter	18	− 4.3	−24
Nonagricultural personal income	bil. dol.	July	2,542	+ 1.0	+ 7

*Formerly called wholesale price index.

**For all urban consumers.

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