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August 12, 1977

FARM PROGRAM LEGISLATION cleared a major hurdle last week when Congressional conferees reached a compromise on the diverse bills passed earlier by the two houses. Although the compromise measure must yet be approved by the House and the Senate—presently in recess until after Labor Day—and signed by President Carter, it is widely believed the conference bill will be enacted in its present form. In general, the measure amends existing legislation for 1977 crops of corn and wheat and extends the basic support provisions presently in effect for all commodities through 1981. In addition, it raises payment ceilings and establishes a grain reserve program.

Target prices and loan rates which are presently in effect for 1977 crops of corn and wheat and which would be instituted for 1977 and 1978 crops—if the measure is enacted—are indicated in the table. (Target prices provide a guarantee that if the market price falls below the target, the farmer will be paid the difference on the production from at least 80 percent of his harvested acreage. Loan rates reflect the amount of funds a farmer can borrow for each bushel he pledges as collateral.) Target prices for 1977 crops of corn and wheat would be raised substantially, as would the 1977 corn loan rate. Further slight increases in target prices are slated for 1978 crops. Target prices for 1979-81 crops would be adjusted upward annually based on changes in cost of production. Contrary to some of the original proposals, however, land charges would not be included among the factors to be used in determining changes in production costs.

**Higher target prices and loan rates
included in conference bill**

	Currently in effect for 1977 crops	Provisions in compromise proposal for	
		1977 crops	1978 crops
Corn			
Target price	\$1.70	2.00	2.10
Loan rate	1.75	2.00	2.00
Wheat			
Target price	2.47	2.90	3.05*
Loan rate	2.25	2.25	2.35

*If production next year is less than 1.8 million bushels; otherwise \$3.00.

Unlike the current programs which permit a wide range within which loan rates may be established, the compromise measure would virtually freeze loan rates for 1978-81 crops of corn and wheat at \$2 and \$2.35 per bushel, respectively. Should world prices drop below domestic prices, however, the Secretary could lower loan rates by 10 percent per year—but not below \$1.75 and \$2 per bushel for corn and wheat, respectively—to maintain U.S. access to world markets. Soybean loan rates would be left to the discretion of the Secretary of Agriculture.

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Payment ceilings would be boosted substantially. (The ceilings limit the total amount of payments—through the target price mechanism—a farmer can receive from all programs in any one year.) The \$20,000 ceiling in effect for 1977 crops would rise to \$40,000 in 1978, \$45,000 in 1979, and \$50,000 for the final two years covered by the proposal. Unlike the legislation expiring this year, disaster payments would be exempt from the ceiling limitations.

A grain reserve program for wheat and feed grains is included in the compromise measure. The reserves would be accumulated through a three- to five-year extended loan program. Although no limits are specified for feed grains, the wheat reserve could range from 300 million to 700 million bushels. Under the extended loan—grain reserve—program, the federal government would pay farmers for storage costs. The measure includes a lower and an upper trigger point to govern the release of grains accumulated in the reserve program. The lower trigger point would be established by the Secretary of Agriculture somewhere between 140 percent and 160 percent of the loan rate. The upper trigger is specified at 175 percent of the loan rate. If market prices range between the two trigger points, the farmer would have the option of redeeming the loan. Should market prices surpass the upper trigger point, the Secretary would call the loans.

Dairy support rates would be pegged at 80 percent of parity through March 31, 1979. Thereafter, supports would range between 75 and 90 percent of parity. Semiannual adjustments are mandated in the measure. The current support rate of \$9 per hundredweight for manufactured milk was equivalent to about 82 percent of parity when implemented in April of this year.

The implications of the compromise proposal, if enacted, will be evident this year and well into the future. Presumably, the higher support rate for corn will stem the recent slide in market prices. Moreover, the higher wheat target price will ensure a substantial government payment to farmers late this year. Some observers have estimated the wheat payment could amount to about \$1.2 billion dollars. In light of current market conditions, it appears highly probable that annual government costs to support all the various commodity programs will substantially exceed the previous high of nearly \$4 billion.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	July	180	- 2.2	- 7
Crops	1967=100	July	181	- 8.6	- 15
Livestock	1967=100	July	179	+ 3.5	0
Paid by farmers	1967=100	July	203	- 0.5	+ 5
Production items	1967=100	July	201	- 1.0	+ 3
Wholesale price index (all commodities)	1967=100	July	195	+ 0.2	+ 6
Foods	1967=100	July	192	+ 0.8	+ 6
Processed foods and feeds	1967=100	July	188	- 1.2	+ 3
Agricultural chemicals	1967=100	July	188	- 0.3	+ 2
Agricultural machinery and equipment	1967=100	July	197	+ 0.3	+ 8
Consumer price index (all items)	1967=100	June	182	+ 0.7	+ 7
Food at home	1967=100	June	192	+ 1.1	+ 7
CASH PRICES					
Corn	dol. per bu.	July	1.93	- 9.0	- 32
Soybeans	dol. per bu.	July	6.30	- 23.3	- 6
Wheat	dol. per bu.	July	2.00	- 1.5	- 40
Sorghum	dol. per cwt.	July	2.98	- 3.2	- 34
Oats	dol. per bu.	July	1.06	- 17.8	- 35
Steers and heifers	dol. per cwt.	July	38.00	+ 3.3	+ 6
Hogs	dol. per cwt.	July	44.90	+ 7.2	- 6
Milk, all sold to plants	dol. per cwt.	July	9.52	- 1.5	+ 1
Broilers	cents per lb.	July	26.2	+ 6.1	+ 3
Eggs	cents per doz.	July	50.7	+ 8.3	- 8
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	102	+ 5.8	0
Net realized farm income	bil. dol.	2nd Quarter	23	+ 3.1	- 19
Nonagricultural personal income	bil. dol.	June	1,495	+ 2.8	+ 13
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	July	169	- 0.5	+ 11
Time deposits	1972-73=100	July	208	+ 1.4	+ 18
Demand deposits	1972-73=100	July	123	- 3.7	+ 1
Total loans at agricultural banks ¹	1972-73=100	July	208	+ 3.5	+ 23
Production credit associations					
loans outstanding:					
United States	mil. dol.	June	13,749	+ 3.1	+ 15
Seventh District states	mil. dol.	June	2,586	+ 3.6	+ 22
loans made:					
United States	mil. dol.	June	1,615	- 2.3	+ 12
Seventh District states	mil. dol.	June	337	+ 0.2	+ 20
Federal land banks					
loans outstanding:					
United States	mil. dol.	June	20,190	+ 1.4	+ 16
Seventh District states	mil. dol.	June	4,040	+ 1.6	+ 23
new money loaned:					
United States	mil. dol.	June	399	- 1.6	+ 23
Seventh District states	mil. dol.	June	96	- 6.7	+ 32
Interest rates					
Feeder cattle loans ²	percent	2nd Quarter	8.73	+ 0.2	0
Farm real estate loans ²	percent	2nd Quarter	8.92	0	0
Three-month Treasury bills	percent	7/28-8/3	5.37	+ 3.5	+ 4
Federal funds rate	percent	7/28-8/3	5.80	+ 6.4	+ 8
Government bonds (long-term)	percent	8/1-8/5	7.66	+ 0.7	- 4
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	May	2,199	- 0.4	+ 19
Agricultural imports	mil. dol.	May	1,257	- 10.5	+ 48
FARM MACHINERY SALES					
Farm tractors	units	June	12,379	+ 0.5	+ 6
Combines	units	June	2,688	+166.1	- 19
Balers	units	June	5,087	+155.5	+ 11

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

² Average of rates reported by district agricultural banks.