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1971 WHEAT AND FEED GRAIN PROGRAMS

Guidelines for Deciding on Participation

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Guidelines for Deciding on Participation

The information presented in the pages which follow is designed to help farmers decide whether or not it is profitable for them to participate in the 1971 wheat and feed grain programs.^{1/} Some important changes have been made in the programs this year as a result of legislation adopted late in 1970; however, both programs are still entirely voluntary which means that a farmer can forego any payments and plant whatever he likes if he prefers to do so. If a farmer wants to participate, he must sign up at the local ASCS office some time between March 1st and April 9th.

The new programs allow participating farmers more freedom in deciding what to plant on the land they are permitted to put into crops after meeting minimum "set-aside" requirements. The term "set-aside" refers to acreage from which crops cannot be harvested in 1971. This acreage must be in addition to each participating farmer's conserving base. As a result of the changes adopted this year some farmers who have not been participating in the past because they needed to plant more land to corn may find they can qualify for payments in 1971 without reducing their corn acreage provided they can maintain their conserving base and are willing to cut back on other crops.

While the 1971 feed grain program offers participating farmers more flexibility in cropping, it is less attractive than the old program to farmers who have been receiving payments for putting their entire feed grain base in the program and have planted no corn or wheat on the farm. There will be no payments in 1971 for additional "voluntary diversion". Land owners who do not plant any corn or wheat on farms with feed grain bases or wheat allotments this year (and accept payments) will have their payments reduced in 1972 and subsequent years; furthermore, they will lose their base or allotment at the end of three years.

It is difficult to generalize about the conditions under which it will or will not pay a farmer to participate in the 1971 wheat and feed grain

^{1/} Only corn and grain sorghum are included in the 1971 feed grain program. There will be no payments or set-aside requirements for barley; however, barley producers will be eligible for price-support loans.

programs. For this reason, it is important for each producer to make his own calculations and to compare costs and returns with and without participation. In order to assist producers in making their own decisions, the major features the 1971 wheat and feed grain programs are first summarized. This is followed by a comparison of returns under alternative assumptions for several types of farm situations common to New York. These "typical" farm budgets show the major items to consider in attempting to assess the relative profitability of participating in the 1971 wheat and feed grain programs.

Important Provisions of the 1971 Wheat and Feed Grain Programs

1. Participation in the 1971 programs is entirely voluntary, just as in the past. A farmer can ignore the program and plant as much wheat and corn as he wants.
2. Only those who now have a feed grain base or a wheat allotment on their farm are eligible to receive payments and to obtain price-support loans; however, each land owner must sign up if he wants to participate. The sign-up period begins March 1st and ends April 9th.
3. The Feed Grain Base and Domestic Wheat Allotment for each farm will be used to determine set-aside requirements and the amount of payments. Farmers will not be required, as in the past, to plant a minimum amount of wheat to qualify for wheat certificates; however, a land owner must plant a certain amount of either corn or wheat to retain his base or allotment over the next three years. Bases or allotments for 1971 will be calculated as follows:

Feed Grain Base = the average acreage planted to corn in 1959-60 (no change from previous years)

Domestic Wheat Allotment = 43.3% of each farmer's 1970 allotment

4. Participating farmers who agree to set-aside (i.e. keep idle) a certain amount of acreage will be eligible for payments which will be computed approximately as follows:

Feed Grain Payments = $\$.32^{\frac{2}{}}$ per bushel (assuming a 20% set-aside)

X the corn yield established by the ASCS for the farm

X 50% of the feed grain base acreage

2/ If the set-aside is less than 20%, the payment rate will be reduced proportionately.

Wheat Payments = somewhere between about \$1.20 and \$1.60 per bushel (the amount will depend on the difference between the parity price and the national average farm price of wheat at harvest time in 1971)^{3/}

X the wheat yield established by the ASCS for the farm

X the Domestic Allotment (the 1971 Domestic Allotment is 43.3% of the 1970 wheat allotment)

5. Set-aside requirements for 1971 are expected to be about as follows:

Feed Grain = 20% of each farmers feed grain base (It is possible the percentage could be less if the Secretary of Agriculture decides this is appropriate. In this case, the \$.32 payment rate also will be reduced proportionately.)

Wheat = 60 to 75% of each producer's new Domestic Wheat Allotment.^{4/} This is equivalent to between 26 and 32% of each producer's 1970 wheat allotment.

The land set-aside generally must have been cropped in one of the past three years and must be in addition to the acreage which qualifies for inclusion as part of each farm's established "conserving base." Approved uses for such land are about the same as for acreage kept idle under previous programs. In general, harvesting crops or grazing will not be permitted on the set-aside acreage during the 1971 growing season.

6. No payments will be made for additional diversion (beyond the set-aside requirements) in 1971.
7. Land owners with feed grain bases or wheat allotments, if they elect to receive payments in 1971, run the risk of reduced payments in 1972 and the loss of their bases or allotment after 3 years unless they plant a certain proportion of their base to corn and/or wheat in 1971. Minimum planting requirements to protect bases and allotments are as follows:

^{3/} The average value of wheat marketing certificates in 1971 is likely to be around \$1.45 per bushel. This figure is based on the difference between an assumed parity price of \$2.86 per bushel and a national average farm price during the first 5 months of the 1971 marketing season of \$1.41 per bushel. A preliminary payment equal to 75% of the anticipated certificate value will be made as soon as practicable after July 1, 1971.

^{4/} The exact set-aside percentage will be announced before the sign-up period.

Feed Grain = 45% of the Feed Grain Base

Wheat = 90% of the Domestic Allotment

Either wheat or corn or a combination of the two crops can be planted to satisfy the minimum acreage requirements so as to guarantee eligibility for full payment in 1972 and 1973.

8. Only those farmers who meet the set-aside requirements will be eligible for price-support loans on corn and wheat in 1971. Loan rates will be about the same in 1971 as in 1970. Last year the state loan rate averaged \$1.24 per bushel for corn and \$1.34 per bushel for wheat.

Information Supplied by ASCS

Prior to the sign-up period, each farm owner will be informed of his:

1. Feed Grain Base
2. Domestic Wheat Allotment
3. Conserving Base
4. Established Yields for Corn and Wheat
5. Set-aside Requirements
6. Preliminary Payment Rates

Additional Information Needed to Compare Costs and Returns

Each farmer will need to estimate for his farm the following:

1. The actual yields he expects to obtain for corn and/or wheat and alternative crops in 1971
2. Cash or out-of-pocket costs per acre for such items as fertilizer, seed, chemicals, gas, oil, etc. for each of the crops considered
3. Anticipated market prices for such crops in 1971

Some guides that may be used in estimating these figures are presented in Appendix Table 1.

Critical Variables Affecting Returns from Participation on Typical New York Farms

Each farm's combination of resources, crop choices, yields and base history is to some degree unique; hence few blanket recommendations can be made regarding participation in the 1971 wheat and feed grain programs. A few of the many possible combinations of variables that will affect returns are illustrated in the case studies which follow. Four types of farms have been selected for analysis. These include:

- (1) a cash-crop farm with no wheat planted;
- (2) a cash-crop farm with wheat already seeded;
- (3) a commercial dairy farm; and
- (4) a small farm with land presently being rented out.

Farm 1.

Cash Crop Farm

300 Total Cropland Acres

Established ASCS corn yield 75 bushels per acre

Established ASCS wheat yield 40 bushels per acre

Established farm history as shown below:

100 A. Conser- ving Base	100 A. Feed Grain Base	50 A. 1970 Wheat Allot- ment
		50 A. Other Crops

Program Requirements and Benefits

A. Feed Grain Program

1. Payment = $\$.32^{\frac{5}{}}$ per bu. X ASCS yield X 1/2 feed grain base
= $\$.32 \times 75 \text{ bu.} \times 50 \text{ acres}$
= \$1200
2. Set-aside requirements = 20% of feed grain base
= $.20 \times 100 \text{ acres} = 20 \text{ acres}$
3. Gross return per set-aside acre = $\$1200/20 = \60

B. Wheat Program

1. Payments = Value of Domestic Mar-
keting Certificates X ASCS Yield X Domestic Allotment
= $\$1.45^{\frac{5}{}}$ X 40 bu. X 43.3% of 1970 wheat allotment
= $\$1.45 \times 40 \text{ bu.} \times 43.3\% \times 50 \text{ acres}$
= \$1256
2. Set-aside requirement = will be 60 to 75% of Domestic Allotment
= $65\%^{\frac{5}{}}$ X 21.7 acres
= 14 acres
3. Gross return per set-aside acre = $\$1256/14 = \$89.75^{\frac{6}{}}$

^{5/} See page 3 for explanation of possible variation.

^{6/} Example is calculated at an assumed 65% set-aside requirement. If program is announced at either extreme it does not effect the amount of the payment but effects acreage set-aside and resultant rate per acre as follows:

With a 75% requirement, 16.2 acres must be set-aside resulting in a paym rate of \$77.53 per acre.

With a 60% requirement, 13.0 acres must be set-aside resulting in a paym rate of \$96.62 per acre.

Table 1. Budgeted Returns Above Variable Costs for a Cash Crop Farm
With No Wheat Planted (Fall 1970).

Crop	Expected ^{1/}		Gross Income	Variable Costs	Return Over Variable Costs	Acres	Total Return Over Variable Costs
	Yield	Price					
-----per acre-----							
A. No participation in either program (Hay - 50 Acres)							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	250	\$12,500
Hay	2.8	25.00	70.00	43.00	27.00	50	1,350
Total						300	\$13,850

B. No participation in either program (Hay - 100 Acres)							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	200	\$10,000
Hay	2.8	25.00	70.00	43.00	27.00	100	2,700
Total						300	\$12,700

C. Participation in wheat program							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	186	\$ 9,300
Hay	2.8	25.00	70.00	43.00	27.00	100	2,700
Wheat Set- Aside	XX	XX	89.75	5.00	84.75	14	1,186
Total						300	\$13,186

D. Participation in wheat and feed grain program							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	166	\$ 8,300
Corn Set- Aside	XX	XX	60.00	5.00	55.00	20	1,100
Hay	2.8	25.00	70.00	43.00	27.00	100	2,700
Wheat Set- Aside	XX	XX	89.75	5.00	84.75	14	1,186
Total						300	\$13,286

^{1/} In this example, expected yields are equal to established yields.

Farm 2.

Cash Crop Farm

(Same as Farm 1 except it has 40 acres of 1970 fall planted wheat)

300 Total Cropland Acres

Established ASCS corn yield 75 bushels per acre

Established ASCS wheat yield 40 bushels

Established farm history as shown below:

100 A. Conser- ving Base	100 A. Feed Grain Base	50 A. 1970 Wheat Allot- ment
		50 A. Other Crops

Program Requirements and Benefits^{1/}

A. Feed Grain Program

1. Payment = \$1200
2. Acreage set-aside = 20 acres
3. Gross return per set-aside acre = \$60

B. Wheat Program

1. Payment = \$1256
2. Acreage set-aside = 14 acres
3. Gross return per set-aside acre = \$89.75

^{1/} See Farm 1 for calculations.

Table 2. Budgeted Returns Above Variable Costs for a Cash Crop Farm
With 40 Acres of Wheat Currently Planted.

Crop	Expected ^{1/}		Gross Income	Variable Costs -----per acre-----	Return Over Variable Costs	Acres	Total Return Over Variable Costs
	Yield	Price					
A. Participation in wheat program ^{2/}							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	146	\$ 7,300
Wheat	40	1.30	64.00*	31.00	33.00	40	1,320
Wheat Set- Aside	XX	XX	89.75	5.00	84.75	14	1,186
Hay	2.8	25.00	70.00	43.00	27.00	<u>100</u>	<u>2,700</u>
Total						300	\$12,506

B. Participation in both wheat and feed grain programs							
Corn	75	\$ 1.24	\$93.00	\$43.00	\$50.00	126	\$ 6,300
Corn Set- Aside	XX	XX	60.00	5.00	55.00	20	1,100
Wheat	40	1.30	64.00*	31.00	33.00	40	1,320
Wheat Set- Aside	XX	XX	89.75	5.00	84.75	14	1,186
Hay	2.8	25.00	70.00	43.00	27.00	<u>100</u>	<u>2,700</u>
Total						300	\$12,606

* - Includes sale of 2/3 T. of Straw.

^{1/} In this example, expected yields are equal to established yields.

^{2/} On this farm non-participation in the wheat program would be irrational - unless he could grow a crop with a return over variable cost more than \$84.75.

Farm 3.

60 Cow Dairy Farm
 120 Total Cropland Acres
 Established ASCS corn yield 75 bushels per acre
 Established farm history as shown below:

80 Acres Conserving Base	30 Ac. Feed Grain Base
	10 Ac. Other Crops

Feed Grain Program Requirements and Benefits

1. Payment = $\$.32 \times 75 \text{ bu.} \times 15 \text{ acres} = \360
2. Acreage set-aside = $.20 \times 30 \text{ acres} = 6 \text{ acres}$
3. Gross return per set-aside acre = $\$360/6 = \60

Forage Requirements

1. 80 acres of hay and 40 acres of corn silage.
2. To maintain cow numbers he must purchase the forage given up by the set-aside or rent additional land for forage production.

Table 3. Budgeted Returns Above Variable Costs for Crops on a Dairy Farm.

Crop	Expected		Gross Income	Variable Costs	Return Over Variable Costs	Acres	Total Return Over Variable Costs
	Yield	Price					
-----per acre-----							
A. No participation in feed grain program							
Corn Silage	16	\$ 8.00	\$128.00	\$47.00	\$81.00	40	\$3,240
Hay	2.8	25.00	70.00	43.00	27.00	80	2,160
Total						120	\$5,400

B. Participation in feed grain program							
Corn Silage	16	\$ 8.00	\$128.00	\$47.00	\$81.00	34	\$2,754
Corn Set- Aside	XX	XX	60.00	5.00	55.00	6	330
Hay	2.8	25.00	70.00	43.00	27.00	80	2,160
Total						120	\$5,244

C. Rental of 6 acres to maintain forage needs							
Rent -- Corn Silage	16	\$ 8.00	\$128.00	\$67.00 ^{1/}	\$61.00	6	\$ 366
Total of B and C						126	\$5,610

^{1/} Assumes \$20.00 for land rent and additional hauling and travel charges.

Farm 4.

Small Farm

70 Total Cropland Acres

Established ASCS corn yield 75 bushels per acre

Established farm history as shown below:

50 Acres Conserving Base	10 Ac. Feed Grain Base
	10 Ac. Other Crops

Feed Grain Program Requirements and Benefits

1. Payment = $\$.32 \times 75 \text{ Bu.} \times 5 \text{ acres} = \120
2. Acreage set-aside = $.20 \times 10 \text{ acres} = 2 \text{ acres}$
3. Gross return per set-aside acre = $\$120/2 = \60
4. Land owner must find a renter that will plant corn if base is to be maintained. Minimum corn acreage = $45\% \times \text{base acreage} = 4.5 \text{ acres}$. At least 50 acres of conserving base would have to be maintained or established which might preclude producing higher profit crops.

Table 4. Budgeted Returns Above Variable Costs for a Small Farm on Which Land is Rented Out.

	Variable Costs -----per acre-----	Return Over Variable Costs	Acres	Total Income
A. No participation in feed grain program				
Rental Income	--	\$20.00	70	\$1,400

B. Participation in feed grain program (base kept)				
Corn (minimum)		\$20.00	4.5	\$ 90
Corn Set-Aside	\$5.00	55.00	2.0	110
Rented (Any Crop)		20.00	13.5	270
Rented -- Conserving base required		10.00 ^{1/}	<u>50.0</u>	<u>500</u>
Total			70.0	\$ 970

C. Participation in feed grain program (losing base)				
Corn Set-Aside	\$5.00	\$55.00	2.0	\$ 110 ^{2/}
Rented (any crop except corn)		20.00	18.0	360
Rented -- Conserving base required		10.00 ^{1/}	<u>50.0</u>	<u>500</u>
Total			70.0	\$ 970

^{1/} This example assumes a lower rental rate on conserving base crops. If 50 acres were in hay (with low rental rates) prior to program considerations, then participation would be favorable.

^{2/} This would be reduced to \$88.00 net in year 2, \$66.00 net in year 3 and no base for participation in year 4 if base requirements are not met.

General Conclusions

1. If a farmer does not have to increase the number of acres in conserving crops to be eligible for participation in the wheat and feed grain programs, his decision involves only the comparison of the returns per acre over variable costs from growing crops with the net returns from government payments calculated per set-aside acre. In general, farmers will find it profitable to substitute set-aside acres for low profit crops such as oats. Payments in such cases can be expected to exceed the loss in returns from keeping part of the acreage idle.
2. A high expected yield in relation to the ASCS yield reduces the advantage of participation. However, a farmer's expected corn yield would need to be substantially above the ASCS yield to shift the advantage in favor of non-participation.
3. Anything that reduces potential return over variable costs from planted crops (such as a lower market price, higher expenses, a late wet spring, etc.) increases the relative advantage of participating in the program. Payments from the government can be estimated rather accurately, whereas returns from crops are likely to be somewhat uncertain.
4. Both those farmers who have a wheat allotment but did not plant wheat in the fall of 1970 as well as those who did plant wheat are likely to find it profitable to participate in the 1971 wheat program. Once they meet the set-aside and conserving base requirements, they can harvest as little or as much wheat as they like since any crop can be grown on the remaining acreage.
5. If a farmer has increased his acreage in higher-valued crops (with offsetting reductions in the area devoted to hay and pasture) over the past decade, he may find it unprofitable to participate since this would force him to restore his hay acreage in order to meet the conserving base requirement.
6. The budget figures used in the analysis do not include labor costs. Total labor requirements will be less if a farmer participates in the programs. The labor would add to returns if used productively on other crops or livestock.
7. Looking ahead to 1972, participation in the wheat program is likely to be profitable for most farmers with a wheat base. Expected wheat yields are not likely to be high enough in relation to established yields to justify non-participation (unless a large increase in conserving base is required). Planting plans for the fall of 1971 and for the year 1972 need to be considered now for fall plantings and logical rotations.

Appendix Table 1. Direct Variable Costs per Acre of Growing Crops.^{1/}

Cost Item	Corn Grain	Oats and Straw	Wheat and Straw	Hay Down 4 Yr.	Corn Silage	Set Aside
Seed	\$ 5.00	\$ 4.00	\$ 6.00	\$ 3.50	\$ 5.00	\$1.00
Fertilizer and Lime	18.00	7.00	10.00	12.00	18.00	
Chemicals	7.00	4.00	1.00	5.50	7.00	
Fuel, Oil, Grease	5.00	5.00	5.00	8.00	7.00	2.00
Custom Hired	--	--	--	--	--	
Machine Repair	7.00	7.00	7.00	10.00	9.00	2.00
Hired Labor	--	--	--	--	--	
Operating Supplies (twine, misc.)	--	.50	1.00	3.00	--	
Interest on Operating Capital	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u> </u>
Total Variable Expenses	\$43.00	\$28.50	\$31.00	\$43.00	\$47.00	\$5.00

Estimated Average Yield	80 bu.	60 bu.	40 bu.	2.8 T.	16 T.	

^{1/} Adopted from several sources. Adjust these figures in your budgets as necessary to reflect fertilizer requirements, yield and costs on your farm.