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THE FOOD AND AGRICULTURAL ACT OF 1981:
A PRELIMINARY OVERVIEW AND EVALUATION

by
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New legislation has been passed that will provide the framework for farm and food policy for the years 1982 through 1985. The legislation is comprehensive and includes 17 titles dealing with price supports and other issues. Its general thrust is similar to the 1977 Act but some important differences exist. The following pages discuss some of the provisions that will be of most direct concern to Michigan farmers.

Price Supports for 1982-1985 Crops. Target prices for wheat for these years are set at levels not less than \$4.05, \$4.30, \$4.45, and \$4.65 per bushel for each year beginning in 1982. Target prices for corn for the same period are set at not less than \$2.70, \$2.86, \$3.03, and \$3.18 per bushel respectively. For both crops the Secretary has been given discretion to establish higher prices based on changes in per acre costs of production. This later provision represents a new feature in farm price support legislation. The Act also requires that target prices for grain sorghum, oats, and if designated by the Secretary, barley, to be at such rates as are determined to be fair and reasonable in relation to the target price on corn. Payment limits for crops are continued at present levels--\$50,000 per person for all payments each year except disaster payments which also are continued at the old level of \$100,000 per person per year.

Non-recourse loans and purchases will continue to be a component of the wheat and feed grain programs. The minimum loan level for wheat has been set at $3.55 per bushel for the period and the minimum support loan level for corn is set at $2.55 per bushel. The Secretary has authority to raise the loan rate on wheat if necessary to maintain its competitive relationship with other grains.

Authority to reduce the loan level for wheat and corn up to 10 percent if market prices are no greater than 105 percent of the loan level has been continued. However, in no event can the prices be reduced below $3 per bushel for wheat and $2 per bushel for corn. Further if action is taken to reduce the loan level, offsetting compensation must be made by increasing the target price payments for the affected crops by an amount that will provide the same total return to producers as if the action on loan and purchase rates had not been taken. If there are no target price payments in effect, separate payments must be made and the overall payment limitation will not apply in this later instance.

Several features of the previous legislation designed to facilitate program administration will be continued. There will continue to be a national program acreage established each year. This acreage must be established for wheat by August 15 and for corn by November 15 of the preceding year. Later adjustments, however, may be made.

The program allocation factor which also will be continued for use in determining farm program acreage. The allocation factor along with a yield determination will effect final total deficiency payments. Deficiency payments will continue to be based on prices received by farmers during the first five months of the marketing year as in the previous legislation. The payment will be determined by multiplying the payment rate in each year times the farm program acreage times the farm program payment yield established for the farm.

Disaster payments continue to be a part of the crop program but will be administered on a restricted basis due to the availability of the expanded crop insurance program. In general disaster payments will be available only in conditions where losses have created an economic emergency for the producer and where federal crop insurance and indemnity payments and other forms of assistance made available by the federal government are insufficient to alleviate the emergency or where no crop insurance is available to cover the loss because of transitional problems in establishing the federal crop insurance program.

The legislation continues authority for the Secretary to require a reduction in acreage planted to wheat and/or feed grains through an acreage limitation program. The limitation is determined by applying a uniform percentage reduction to the wheat and/or feed grain acreage base (acreage planted for harvest the previous year) for each farm. This appears to imply a relatively crop specific program. A percentage of the acres on each farm must be devoted to conservation uses when an acreage limitation program is in effect.

The Secretary also has the option to institute a set-aside program where producers would have to set-aside and devote to conservation purposes acreage equal to a specified percentage of total crop acreage planted for harvest. In addition, he may offer producers a paid land diversion program if he determines such payments will assist in obtaining necessary adjustment to total acreages. This later program may be offered whether or not an acreage limitation or set-aside program is in effect. The amounts payable to producers under this program may be determined by bids submitted by producers for diversion contracts--a new element of program management and one that can have far reaching implications.

Total acreage planted to wheat and/or feed grains need not be within a farmer's normal planted acreage unless a set-aside program is in effect. In this case the set-aside, diverted, and planted acreage cannot exceed the normal planted acreage on individual farms. Further, compliance with program provisions for any commodity may be required as a condition of eligibility for loans, purchases, or payments if a set-aside is in effect but not if an acreage limitation program is in effect.

A program for the support of soybeans is included with the loan level set at 75 percent of the simple average price of beans received by farmers over the preceding five marketing years, excluding the high and low years but with a minimum support level of $5.02 per bushel. As with wheat and feed grains if prices do not exceed 105 percent of the loan level in any year, the support level may be reduced but by not more than 10 percent per year with a minimum of $4.50 per bushel. No provision is made for acreage reductions on soybeans and they are not eligible for the reserve program nor can any storage payments be made to producers.

The 1981 Act requires that a farmer held reserve program be established for both wheat and feed grain. The Secretary may set an upper limit on the amount of commodity placed in the reserve but this cannot be less than 700 million bushels for wheat and 1 billion bushels for feed grain. Conditions for implementing the program are very similar to those under the 1977 Act but the specific terminology of release and call price is not used. Instead the Secretary is authorized at a time when the market price has attained a "specified" level to increase the rate of interest on loans and design other methods to encourage orderly marketing of wheat and feed grains. Substantial penalties continue to exist if a producer redeems his loan before the price has reached the level predetermined by the Secretary at which release can be made. Loan can be called prior to maturity only if emergency conditions warrant making commodities available on the market.

Dairy Products. The dairy program has changed substantially in that minimum prices have been specified and support levels are related to the level of surplus production and government expenditures. The minimum price support for 3.67 percent milk will remain at $13.10 per hundred weight through September 30, 1982. Thereafter the minimum price will increase to $13.25 per hundred for fiscal year 1983, $14 for 1984 and $14.60 for 1985. On the basis of current inflation rates, these levels are likely to be well below 70 percent parity. However, if in any year it is expected that the net cost of federal programs to the government will be less than $1 billion the minimum support will be set at 70 percent of parity. Further if government price support purchases are expected to be less than 4 billion pounds milk equivalent in fiscal 1983, 3.5 billion pounds in 1984 or 2.69 billion pounds in 1985 the minimum price support for the year will increase to 75 percent of parity.

Other features of the Act continue the dairy indemnity program, deal with certain aspects of marketing orders and authorize the Secretary to use to the fullest extent practicable the authorities under the Commodity Credit Corporation Charter Act and the Agricultural Trade Development and Assistance Act of 1948 [PL-480] and other available authorities to reduce inventories of dairy products held by the CCC.

Sugar. After a lapse of about 3 years sugar price supports are reinstituted by the 1981 Act. Through March 31, 1982 the Act mandates support of cane sugar prices through purchase of processed products that will approximate a raw cane sugar price of $16.75 per pound. The price of sugar beets will be supported at a level considered reasonable in relationship to the support for cane sugar. Beginning in October of 1982, domestically grown cane sugar will be supported through non-recourse loans at not less than 17 cents per pound for raw sugar. This level is increased to 17.5 cents per pound for the 1983 crop, 17.75 cents per pound for the 1984 crop and 18 cents per pound for the 1985 crop. Sugar beets will continue to be supported at a level considered reasonable in relationship to cane sugar.

International Issues. The Act deals with international issues more extensively than previous legislation. It establishes an export credit revolving fund for use by the Commodity Credit Corporation without fiscal year limitations. The bulk of the fund would be used to finance commercial export sales of commodities. The fund also can be used to finance both private and CCC export sales of breeding animals and can be used to improve handling, marketing, processing, storage or distribution facilities in countries receiving U.S. products. However, only local currency generated by U.S. agricultural commodity sales can be used for the financing of these facilities. The bill provides no specific authorization for appropriation of funds to initiate the program.

Another provision requires the Secretary of Agriculture to develop a standby export subsidy program for agricultural commodities to deal with unfair foreign competition. The program can be used only if the President determines action is needed to eliminate foreign programs that have substantially displaced U.S. agricultural exports or reduced prices in foreign markets below levels at which U.S. commodities could be supplied. The need for Presidential determination means that interagency agreement will be required to activate a subsidy program hence the Department of Agriculture's flexibility in using this provision will be substantially limited.

Another provision deals with embargo protection. If this program is invoked producers of the commodity involved would be compensated either by establishing a loan level of 100 percent of parity, making direct payments to producers or a combination of the two. The program would not be triggered if the sales suspension restricts all U.S. exports to a country or region or if sales of the commodity to the country or area do not exceed three percent of total U.S. export sales of the specific commodity during the preceding year. The Secretary is also required to develop a comprehensive contingency plan that examines ways to alleviate adverse effects of export embargoes on agricultural products.

The Act extends the Agricultural Trade, Development and Assistance Act of 1954 [PL-480] and establishes a maximum appropriation for Title I (concessional sales) of $1.9 billion per calendar year. The maximum authorization for expenditures under Title II programs (donations) was increased from $750 million to $1 billion. A few other changes were made--the most important of which is to permit setting the prices of commodities used in PL-480 programs below but at no time above the export market price. This permits flexibility which had not previously existed in pricing PL-480 commodities and allows the potential for increased volume of concessional exports. Heretofore all concessional exports had to be valued at the current export market price.

Resource Conservation. A title on resource conservation is included that either represents new legislation or is a significant change from the 1977 Act. The elements include special areas conservation program, small watershed program, matching grants for conservation activities, a conservation loan program, a reservior sedimentation reduction program, resource conservation and development program, farm land protection policy and a number of other elements.

Other Provisions. The Act deals extensively with food stamps and commodity distribution and makes some changes in existing programs. These changes relate largely to operational aspects including such things as eligibility requirements, work requirements, household definition and other factors in program administration.

A major title in the Act deals with national agricultural research, extension and teaching policy. The Act continues most provisions of previous legislation but makes a number of changes including the requirement that a new assistant secretary of agriculture be appointed to cover these areas of responsibility. Beyond that a number of program changes have been added particularly in relation to specific research efforts needed in agriculture.

A final two sections of the bill deal with credit, rural development, and family farms plus floral research and consumer information.

Evaluation. As indicated at the outset the new bill is comprehensive and in some parts provides relatively detailed program specifications. As compared with previous legislation the most important extensions are those related to international relationships and resource conservation and management. Because operating specifications have not been developed as yet for most parts of the bill a comprehensive evaluation is not possible. Some of the more important points to note, however, are the following:

The price support loan and reserve programs will operate similar to those in the 1977 Act. Deficiency payments will be made when the U.S. average price received by farmers in the first five months of the crop year is below the target price. While the release and call level terminology is not included the secretary has discretion to specify a price at which storage payments will no longer be made and interest charges on the loan will not be waived in the reserve program. A difference from previous legislation is that target prices for each year of the bill have been specified for major commodities. These are minimum price levels and the secretary has discretion to establish higher levels but this would appear unlikely at the present time.

An important question is the relationship between these target prices and probable rates of increase in production costs. The rates of increase in target prices vary among commodities and seem to show no consistent pattern. The target price for corn increases 12 percent from its current level to 1982, thereafter increases of 5 to 6 percent are built in. For wheat the increase is 6 percent for each of the first two crop years and then drops to 3 percent and increases slightly to 4 percent for the 1985 crop. For milk the increase in 1982 from the present level is only 1 percent, thereafter the increases are 5 and 4 percent per year. If these milk price minimums hold, the support level will likely be almost \$2.50 per hundred below 70 percent of parity and over \$3.50 per hundred below 75 percent of parity by 1985. This represents a substantial change in dairy policy.

A second point to make is that program operation will continue to present farmers with a substantial degree of uncertainty. The normal crop acreage concept is retained with flexibility to make changes until late in the crop year. There are three options that can be used in restricting crop acreage two of which--the acreage reduction program and the set-aside program would be related to compliance for the loan and reserve program. The paid diversion program on the other hand, could operate independently of the loan program. The paid diversion also adds the new element of a farmer bid procedure as the basis for diversion payments.

A general component of the uncertainty involved in the program is that the Secretary can exercise discretion in implementing a wide range of operational elements. This includes prices above the minimum level specified, the relationship between loan rates and target prices, the setting of and the basis for acreage control program and a number of other things. This has to be combined with the fact that political pressures related to farm program operations come from many sources. It is also true that interagency involvement in food and agriculture has increased substantially hence the decision process within the administrative branch of government has dispersed with sometimes unpredictable results, particularly in the case of decisions related to international markets. In the case of export subsidies no decision can be made without full interagency review through the special trade representatives office. This in itself lends uncertainty as to how programs will be implemented.

Another unique feature of the 1981 Act is the extent of concern with the operations of food programs particularly the food stamp program. A lengthy section is included in the Act related to the specifics of operations with a view toward limiting both use and abuse of the program. The Act also deals with experimentation in the use of new forms of distribution including consideration of direct income payment in leiu of food donations. If this later approach materializes it could represent a move toward making food programs a part of our general welfare program and potentially could have major implications for the future of the food programs in the Department of Agriculture.

Another element of the Act that represents a substantial new emphasis compared with previous legislation, is the section dealing with resource conservation. This apparently is related to recently developing concern with soil erosion and the depletion of natural aquifer in some areas of the country. This may portend an important future resource oriented direction in food and agricultural policy that ultimately can become as important as food distribution and commodity price policy. If this is true, a new set of trade offs will be involved in developing food and agricultural policy.

Another general perspective that arises in the legislation is that while the Secretary retains and probably has been given increased discretion in operations of commodity programs, greater detail of program specifications seems to have been inserted in other sections. This is particularly true in dealing with food distribution programs and those dealing with national agricultural research, extension and teaching policy. International issues also have been given greater attention. The reasons for the greater detail in sections where it exists is not easily apparent.

Finally it should be kept in mind that while this legislation covers four years, this does not mean that there will be no additional food and agricultural legislation during that period. During the past four years the Act of 1977 was amended by the Emergency Agricultural Act of 1978, Dairy Legislation of 1979, the Agricultural Adjustment Act of 1980, the Agricultural Act of 1980 and the Federal Crop Insurance Act of 1980. These resulted in a substantial amount of changes particularly in the operation of the price support and loan programs. They also had an impact on the sugar program, the PL-480 program, and the food stamp program and, of course, established a crop insurance program. Thus whether the existing 1981 legislation will stand intact for the full four years or be substantially altered through new legislation is itself an uncertainty of the future.