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WILL PIK WORK  
by  
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The PIK program is designed to do what the previously announced programs could not; reduce production and move stocks out of FOR storage. For several reasons, the previously announced programs appeared inadequate to reduce stocks and relieve downward pressures on prices and incomes. Most important are: 1) that there is again record world production of grains and oilseeds in 1982/83, and (2) export demand is sluggish due largely to the world economic recession. The USDA estimates that by the end of 1982/83 the United States will hold nearly 150 million tons of grain in stocks or roughly 60 percent of the world's carryover.

The specific objectives of the PIK program as put forth by the USDA are:

(1) To reduce stocks while cutting production, lessening the overhang on the market in future years and enhancing prospects for market recovery in farm prices.

(2) To maintain supplies in the market place, showing that the U.S. intends to be a reliable supplier abroad.

(3) To minimize CCC loan forfeitures by utilizing commodities under outstanding regular loans for PIK compensation.

(4) To reduce farmer owned reserves (FOR) stocks to more desirable levels by utilizing these stocks for PIK compensation.

(5) To promote farm income while at the same time reducing costs for the Federal Government and thus the U.S. taxpayers.

(6) To lessen storage space problems.

The extent to which these objectives might be obtained is indicated in the attached tables for wheat and feedgrain. These tables indicate



estimates of potential production, use, stocks and price of grain starting with the base position of what might have been expected before PIK, but with the original acreage reduction and set-aside programs. The last three columns of each table represent alternative levels of participation in the PIK program. The estimated participation before PIK was approximately 55 percent for wheat and approximately 45 percent for feedgrains. The three last columns in the table represent different levels of participation with the PIK program. 'LL' represents participation of 30 percent of base acreage in the wheat and in the feedgrain programs. 'MM' represents participation of 50 percent on wheat and 45 percent on feedgrains while 'HH' represents 70 percent participation on wheat and 60 percent on feedgrains. Only corn and grain sorghum are included in the feedgrain PIK program. Adequate stocks of barley and oats are not available to make including them in the PIK program feasible.

While these estimates have been carefully constructed, the table should be used more for purposes of comparing differences between the columns than for making estimates of specifically what price might be for the 1983 crop. For example, the without PIK estimated season average farm price for corn of \$2.57 per bushel for the 1983 crop may be high or low. We think it is close. The purpose of this exercise was to indicate the probable relationship of price with PIK to that which might exist without PIK. In other words, we feel more confident in saying that, if participation rates are low, the price is likely to be somewhat lower with PIK than without it. On the other hand, if participation levels go to a medium level, price will be somewhat higher with PIK than without it, and with high participation a significant increase in price will occur.

For both wheat and feedgrains, PIK will have an increasing impact in reducing acreage and production as participation increases. However, at low levels the effect of reduced production due to lower acreage will be slightly more than offset by increased movement of grains out of FOR and CCC stocks and hence price will not increase.

Even at high levels of participation there is no price bonanza in sight. And, as can be seen, ending stocks will be relatively high. In the case of feedgrains, stocks can be reduced from 40 percent of annual utilization to as low as 28 percent if participation is high. In the case of wheat, stocks would be reduced from 65 percent of annual utilization to 43 percent of annual utilization with high participation. Thus at the end of the 1983/84 marketing year, stocks will continue to be substantial and government programs (possibly an additional year of PIK) will be required to bring stocks in line with normal market requirements.

In summary while the PIK program will help in reducing stocks and possibly in increasing price, it will not of itself eliminate the stock overhang sufficiently to get a major increase in farm prices. Only a substantial increase in world demand and sharply increased exports or a near disaster level crop due to drought can do that in the 1983/84 season.



## WHEAT

Item	Without PIK	With PIK*		
		(L/L)	(M/M)	(H/H)
Planted Area	79.60	80.03	76.00	71.47
Harvested Area	72.20	69.24	61.40	53.75
Yield, Bu./acre	34.75	34.75	35.50	36.25
Area grazed	.00	4.17	8.22	11.95
Beg. Stocks	1442.10	1442.10	1442.10	1442.10
Production	2508.85	2406.10	2179.87	1948.38
Imports	2.50	2.00	2.00	2.00
Total Supply	3953.45	3850.20	3623.97	3392.48
Domestic Use	907.20	906.90	902.50	898.80
Exports	1490.20	1488.10	1480.90	1476.10
Total Use	2397.40	2395.00	2383.40	2374.90
Ending Stocks:				
Total	1556.05	1455.20	1240.57	1017.58
FOR & CCC Owned	1263.50	1025.10	833.70	623.40
Free & Regular Loan	292.55	430.10	406.87	394.18
Ratio of Stocks to Annual Use	.65	.61	.52	.43
U.S. Season Average Farm Price 1983/84	4.02	3.98	4.22	4.46

\*Participation rates with PIK in percent of total acreage:

	<u>Low (L/L)</u>	<u>Medium (M/M)</u>	<u>High (H/H)</u>
Wheat	30	50	70
Corn & Sorghum	30	45	60

## FEED GRAIN

Item	Without PIK	With PIK*		
		(L/L)	(M/M)	(H/H)
Planted Area	110.50	107.20	99.90	92.70
Harvested Area	97.63	94.71	88.26	81.90
Yield, tons/acre	2.14	2.14	2.16	2.18
Beg. Stocks	104.90	104.90	104.90	104.90
Production	209.30	202.90	190.80	178.20
Total Supply	314.20	307.80	295.70	283.10
Domestic Use	159.70	159.90	159.10	158.20
Exports	65.20	61.50	64.70	63.70
Total Use	224.90	221.40	223.80	221.90
Ending Stocks:				
Total	89.30	86.40	71.90	61.20
FOR & CCC Owned	74.90	58.60	49.80	41.30
Free & Reg. Loan	14.40	27.80	22.10	19.90
Ratio of Stocks to Annual Use	.40	.39	.32	.28
U.S. Season Average Corn Price (farm) (1983/84)	2.57	2.51	2.73	2.98

\*Participation rates with PIK in percent of total acreage:

	<u>Low (L/L)</u>	<u>Medium (M/M)</u>	<u>High (H/H)</u>
Wheat	30	50	70
Corn & Sorghum	30	45	60