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# Farm Program Effects on the U.S. Oats Industry

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The United States is the world's second largest producer of oats, behind the Soviet Union. Although today the United States claims roughly 13 percent of the world crop harvested as grain, this share has steadily declined from 35 percent in the early 1950's. U.S. production for grain declined from 1.5 billion bushels in crop year 1955 to 219 million in 1988. Oats harvested as grain was the third most valuable crop in 1950, but dropped to fifteenth by 1988. (The crop and marketing year for oats runs from June 1 to May 31.)

Oats have historically been a multipurpose crop planted for numerous reasons other than as a cash grain crop. Acreage harvested as grain averaged only 42 percent of total acres planted during 1986-88. Producers plant oats for such onfarm uses as straw, pasture, forage, conservation, and as a companion crop to help establish a legume crop, such as alfalfa.

In marketing year 1988/89, about 67 percent of all oats consumed as grain in the United States, both on and off farm, was livestock feed (*table 1*). Food and seed uses claimed most of the remainder, about 22 percent and 11 percent, respectively. Exports were insignificant.

The importance of imports has been growing. Between 1950/51 and 1986/87, they were a small percentage of supply, ranging from 1 to 5 percent. However, the 46 million bushels imported in 1987 accounted for 8 percent of supply. The estimated 68 million bushels imported in 1988 equaled 17 percent of supply.

One reason for the decline in production is that oats have become less profitable compared with other crops, such as corn, soybeans, wheat, and recently, barley. Government farm programs have allegedly provided some of the disincentive for producing oats.

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**Table 1. Most Oats Are Used for Feed**

Item	Marketing year <sup>1</sup>				
	1984/85	1985/86	1986/87	1987/88	1988/89 <sup>2</sup>
	<i>Million bushels</i>				
<b>Supply</b>	689	728	603	553	399
Beginning stocks	181	180	184	133	112
Production	474	521	386	374	219
Imports	34	28	33	46	68
<b>Utilization</b>	509	545	471	441	301
Domestic	508	542	468	440	300
Food and industrial	41	44	45	45	70
Seed	35	38	31	34	30
Feed	432	460	392	361	200
Exports	1	2	3	1	1
<b>Ending stocks</b>	180	184	133	112	98
Commercial	176	181	125	106	96
Farmer-owned reserve	3	1	4	4	0
CCC inventory	1	2	4	2	2

<sup>1</sup>The crop and marketing year for oats runs from June 1 to May 31. <sup>2</sup>Estimated.

Programs for oats have ranged from indirect price supports determined by those for corn, a supported commodity since the 1930's, to the current direct price and income supports. Government outlays for oats, however, remain minor compared with the other feed grains, wheat, and soybeans. Participation in the oats program has been relatively small, because much of what is grown is used on the farm and because of the lack of economic incentives to produce oats commercially. Of the oats harvested as grain, onfarm use accounts for over half, with most of it going for livestock feed.

## History of the Oats Program

U.S. agriculture has received price and income support from Government farm programs since passage of the Agricultural Adjustment Act of 1933. While oats were not designated as a basic commodity, and thus were ineligible for direct support, prices were influenced

indirectly through price supports for corn. Oats were first directly supported in 1945 by nonrecourse loans. During 1947-53, nonrecourse loans were offered at the discretion of the Secretary of Agriculture. Such support for oats became mandatory with the Agricultural Act of 1956. (*Program terms are explained in the Glossary.*)

Emergency feed grain legislation enacted in 1961 provided higher support levels to farmers who voluntarily reduced corn and sorghum acreage by 20 percent or more. While voluntary diversion programs of the 1960's focused on wheat, cotton, corn, sorghum, and sometimes barley, oats were not included. Direct payments were also made to corn and sorghum farmers but not to oats producers.

The Food and Agriculture Act of 1965 permitted farmers with a history of growing oats or rye to qualify for an oats-rye acreage base (*see box*). Farmers who

### The Price Support Program for Rye

Rye is a relatively minor crop in the United States. Returns from rye are significantly below those of other field crops, and this has limited its production. Another disadvantage of growing rye is that it shatters readily—rye seeds fall from the heads before and during harvest—and thus reseeds itself year after year. If wheat is planted on land that produced rye the previous year, the rye seeds will sprout and grow with the wheat. When the crop matures, the wheat and the rye are harvested together. This results in lower quality wheat, which pushes down the price a farmer can receive.

Rye plantings ranged between 2.3 and 3 million acres during crop years 1981-88. Plantings are concentrated in the North Central States. The harvested area is only about one-third of planted acreage since the remainder is used as a cover crop, weed killer, or forage.

Rye does have a Government price support program. First offered in 1939, the program provides nonrecourse loans to producers.

Most rye is consumed domestically, primarily as livestock feed. Because it is less palatable than other feed grains, rye is mixed with other grains when fed to livestock. Food demand focuses on rye flour for use in dark breads.

Ending stocks for rye rose from 3 million bushels in marketing year 1981/82 to a high of 22 million in 1985/86, but since then have declined to an estimated 10 million bushels in 1988/89. Most of this

increase was an accumulation of Commodity Credit Corporation (CCC) stocks, which grew from zero in 1981/82 to 16 million bushels in 1985/86 as the farm price dropped 14 cents a bushel below the loan rate. CCC inventory is estimated to drop to 8 million bushels in 1988/89, since the farm price was above the loan rate.

### Rye Is a Relatively Minor Crop

Item	Marketing year <sup>1</sup>		
	1981/82	1985/86	1988/89 <sup>2</sup>
<i>Thousand acres</i>			
<b>Acreage</b>			
Total planted	2,566	2,563	2,424
Harvested	685	717	607
<i>Bushels per acre</i>			
<b>Yield</b>	26.6	28.8	24.8
<i>Dollars per bushel</i>			
<b>Prices</b>			
Loan rate	2.04	2.17	1.50
Average farm price	3.00	2.03	2.49
<i>Million bushels</i>			
<b>Supply</b>	22.6	42.6	34.2
Beginning stocks	4.0	19.8	18.9
Production	18.2	20.6	15.0
Imports	0.4	2.2	0.2
<b>Utilization</b>	19.6	20.8	23.9
Domestic	18.1	20.6	20.5
Food	3.5	3.5	3.5
Industrial	2.2	2.1	2.0
Feed	8.1	11.2	11.8
Seed	4.3	3.8	3.2
Exports	1.5	0.2	3.4
<b>Ending stocks</b>	3.0	21.9	10.3
Commercial	3.0	5.9	2.1
CCC inventory	0	16.0	8.2

<sup>1</sup>The crop and marketing year for rye runs from June 1 to May 31. <sup>2</sup>Estimated.

participated in both the wheat and feed grain programs could plant wheat on the oats-rye acreage after devoting a certain percentage of the base to conserving uses. This program, which covered marketing years 1966/67-1970/71, provided some farmers with an opportunity to increase wheat acreage from land that had been planted in oats or rye during the 1950's.

The Agricultural Act of 1970 introduced set-aside programs, which restrict farmers' use of their total cropland acreage. This eliminated the need for the oats-rye base since wheat acreage was no longer constrained by an acreage allotment. The twofold system of support with minimum loan levels and additional price support payments continued under the 1970 Act. Rye and oats farmers were eligible for nonrecourse loans but not for price support payments.

The Agriculture and Consumer Protection Act of 1973, effective for the 1974-77 crops, introduced target prices and deficiency payments that replaced price support payments. Feed grain target prices covered corn and sorghum and, if designated by the Secretary, barley. Oats producers were only offered nonrecourse loans.

While the Food and Agriculture Act of 1977 mandated target price protection for corn and sorghum, such protection was optional for oats and barley. Oats were eligible for the Farmer-Owned Reserve (FOR) that provided 3- to 5-year loans and reserve storage payments to farmers. A set-aside program was authorized if the Secretary determined that supplies were apt to be excessive.

The Agriculture and Food Act of 1981 authorized target prices, nonrecourse loans, and crop-specific acreage controls, called acreage reduction programs (ARPs), for oats. Oats and barley were given a common acreage base at the Secretary's discretion. Conse-

quently, oats producers could plant all their oats-barley permitted acreage—the acreage base less any ARP—in either oats, barley, or some combination.

### Current Oats Program

The Food Security Act of 1985 was written at a time when most U.S. farm commodities had lost their competitiveness in world markets. Aimed at expanding exports, protecting farm income, and eventually reducing farm program outlays and Government intervention in agriculture, the Act retains many of the policy parameters of the 1981 Act. Now, however, the Secretary has more discretionary authority.

Under the 1985 Act, loan rates for oats are based on the grain's feed value compared with corn. The loan rate for the 1989 oats crop is 85 cents per bushel, 51 percent of \$1.65, the 1989 rate for corn. Target prices for oats are set slightly higher—at 53 percent of those for corn. For 1989, they equal \$1.50 per bushel for oats and \$2.84 for corn.

The Secretary retains discretionary power over ARPs, but they become mandatory if corn carryover stocks reach 2 billion bushels. The FOR continues with some changes; reserve minimums and maximums are specified as a percentage of total domestic and export use. In addition, the 1985 Act establishes a Conservation Reserve, which is scheduled to contain 40 to 45 million acres of highly erodible cropland by crop year 1990. (See *Federal Corn and Sorghum Programs for more information on current program provisions as they apply to feed grains.*)

Recently, acreage has shifted from oats to barley and corn because of higher net returns caused, in part, by Government programs. To counteract this shift, gradual changes have been made in the oats program over the past 3 years. For example, the 1987-89 oats crops were exempt from the limited cross-compli-



ance in effect for other grains and cotton. This provision requires producers, if they participate in one commodity program, to plant no more than the acreage base of any other program crop grown on their farms. In addition, the ARP for the 1988 oats crop was set at 5 percent, compared with 20 percent for the other feed grains. For the 1989 and 1990 crops, producers may plant any part of their farm acreage base to oats—except for that acreage designated to soybeans—if the ARPs for corn, sorghum, and barley are 12.5 percent or less.

### Effects on Producers

Nonrecourse loans provide an orderly marketing mechanism that strengthens market prices and reduces the risk of falling prices for program participants. Farmers can pay back their loans plus interest or they can forfeit the oats. In times of tight cash flow, large surpluses, or strict credit qualifications by lending institutions, these loans can help farmers. Nonparticipants benefit indirectly from supported market prices. However, because farm prices for oats were higher

than loan rates during marketing years 1972/73-1984/85, the loans had little effect on farm prices (figure 1). Because ARPs limit supply, they also strengthen prices, despite nonparticipation and idling of less productive land by participants.

Oats target prices and deficiency payments were first authorized by the Agriculture and Food Act of 1981. High market prices precluded deficiency payments for the 1982 crop. However, payments were made for the 1983 crop at 11 cents a bushel for a total of \$5 million. Deficiency payments were also distributed in crop years 1985-87.

### Impact on Processors

Until recently, processors have been able to find adequate sources of oats. Supply and demand for oats were generally balanced during marketing years 1950/51-1987/88. Stocks-to-use ratios ranged from 25 to 42 percent (stocks equaled about 3 to 5 months of domestic use) except for the few times when supplies were tight, such as the early 1950's and late 1980's when ratios declined to a low of 23 to 25 percent. Supplies were excessive in 1965/66, 1968/69-1972/73, and 1977/78-1978/79 when stocks-to-use ratios equaled or exceeded 43 percent, peaking at 70 percent in 1971/72 (stocks equaled 5 to 8.5 months of domestic use).

However, Government programs have put oats at a competitive disadvantage for most of the 1980's. For example, beginning with the 1982 crop, USDA has assigned a common acreage base to oats and barley. More barley than oats was planted because barley had a better net return per acre, based on a higher target price and potentially larger deficiency payments. Producers usually plant the crops with the large deficiency payments—such as corn, wheat, and barley—rather than oats. Finally, the Conservation Reserve could reduce oats

production. The highly erodible cropland that is eligible for the reserve has often been planted in oats.

As production has declined, imports of oats have begun to rise. Nevertheless, food and feed processors must still compete for available supplies. Consequently, oats prices are rising above the grain's feed value.

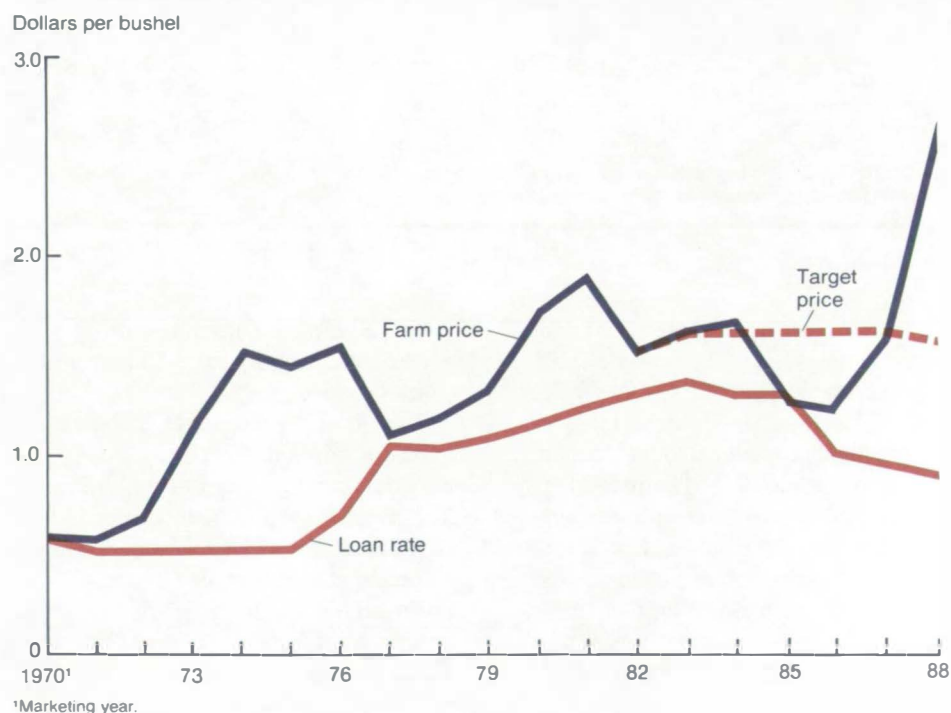
### Effects on Consumers

Although feed grain programs benefit grain producers by supporting the price of their commodities, they usually increase costs for firms or individuals buying feed grains. Higher oats prices cause livestock producers and oats processors to pay more, which in turn means higher prices for consumers of livestock and oats products. Although the Food Security Act reduced loan rates, market prices remain significantly above the loan level (table 2).

The quantity of oats used as livestock feed fluctuates more from a change in price than oats used by the pleasure horse and racehorse industry or for human consumption. The livestock and poultry industries are more likely to adjust feed rations based on what grains are most economical to use. Unlike the horse industry or retail consumers, the livestock sector has a wider range of competing feed grains to choose from.

Food use of oats has about doubled in the past 35 years, ranging from 32.8 million bushels in 1953/54 to about 85 million bushels in 1988/89. Food's share of total use has risen in the past several years to an estimated 22 percent in 1988/89, up from 2.4 percent in 1955/56. Per capita consumption of oats has begun to rise in the last few years due to health attributes, but still is much less than wheat's 115-120 pounds per year. Food consumption of oats depends more on

Figure 1. Loan Rates for Oats Had Little Effect on Farm Prices During 1972-84



**Table 2. The Food Security Act Reduced the Loan Rate for Oats Beginning in 1986/87**

Item	Marketing year <sup>1</sup>				
	1984/85	1985/86	1986/87	1987/88	1988/89 <sup>2</sup>
	<i>Million acres</i>				
<b>Acreage</b>					
National base	9.8	9.4	9.2	8.4	7.9
Acreage reduction	0.1	0.1	0.4	0.6	0.3
Paid land diversion	—	—	0.1	0.2	—
Conservation reserve	—	—	0.1	0.5	0.9
Total planted	12.4	13.3	14.7	18.0	13.9
Harvested	8.2	8.2	6.9	6.9	5.6
	<i>Bushels per acre</i>				
<b>Yield</b>	58.0	63.7	56.0	54.0	39.2
	<i>Dollars per bushel</i>				
<b>Prices</b>					
Target price	1.60	1.60	1.60	1.60	1.55
Loan rate	1.31	1.31	0.99	0.94	0.90
Average farm price	1.67	1.23	1.21	1.56	2.61
Deficiency payment rate	0	0.29	0.39	0.20	0
	<i>Million dollars</i>				
<b>Income</b>	799	654	512	675	677
Market value of production	799	645	471	606	571
Government payments	0	9	41	69	106
Deficiency	0	8	30	19	2
Diversion	—	—	2	8	—
Conservation reserve	—	—	8	41	66
Other <sup>3</sup>	0	1	1	1	38

— = not applicable. <sup>1</sup>The crop and marketing year for oats runs from June 1 to May 31. <sup>2</sup>Estimated. <sup>3</sup>Includes Farmer-owned reserve storage payments and disaster payments.

population, tastes, and preferences than on price.

Food products containing oats include oatmeal, oat bran, oat flour, natural cereals, meat product extenders, cookies and breads, granolas, and baby food. Oat flour is used in breads, cereals, certain cosmetics, and as an antioxidant in food products. However, oats are consumed principally as a breakfast food or snack product. Industry sources estimate that in the past several years, 50 percent of the oats used for food is in standard oat-

meal, 35 percent in instant oatmeal, 5-10 percent in oat flour, and 5-10 percent in snack products.

Recent medical research has shown that consumption of certain fibrous plant materials can lower serum cholesterol. These water-soluble fibers can be found in oat bran but not wheat bran. Water-soluble dietary fibers also lower postmeal blood glucose levels in insulin-dependent diabetics. Thus, oat bran and whole oats are beginning to play a larger role in our diets. Oats consumption ap-

pears to be increasing, as Americans shift from fatty, animal-based foods to cereal-based foods.

### Program Costs

The oats program has varied not only in content but also in cost. Government stocks swelled in marketing years 1970/71-1972/73 when farm prices dropped below or were slightly above the loan rate, and many farmers forfeited their crops. The surge in export demand during the mid-1970's reduced loan activity, as farmers redeemed their loans and sold their oats in the market. During the 1980's, the amount of oats harvested as grain and put under loan has been less than 2 percent.

Price and income support activities for oats cost the Government \$103.7 million in fiscal 1970, \$1.5 million in 1985, and \$26.2 million in 1986. Government expenditures for oats during 1982-86 were consistently below those for corn, sorghum, barley, wheat, and soybeans. In fiscal 1986, the \$26.2 million spent on oats was minor compared with \$10.5 billion spent on corn. The oats program is less expensive primarily because of lower program participation and a much smaller crop. Participation has ranged from 14 to 45 percent during the past 5 years, compared with 54 to 90 percent for corn and 60 to 87 percent for wheat. ■

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