Legislation

The key features of the Administration's proposal for the major crop commodities are nonrecourse loans, a farmer-owned wheat and feed grain reserve, and the authority to implement an acreage diversion program when and if needed.

Loan Rates

Basic loan rates for major crop commodities will continue to be set at levels that will allow U.S. commodities to compete in world markets. However, the loan rates will be high enough to provide an effective safety net and help farmers with their short-term financing needs for production and marketing. For the crops of grain and soybeans for 1982 and beyond, the Secretary of Agriculture will analyze the supply and demand conditions surrounding each crop and make his decision accordingly. The loan rate for cotton will continue to be determined by a formula that reflects world price levels.

Farmer-Owned Reserves

The farmer-owned grain reserve will protect against extreme fluctuations in grain supplies and prices. The reserve will operate by accumulation of wheat and feed grains during periods of excessive supplies and releasing those supplies during periods of shortage. The primary purpose of the reserve will not be to either enhance prices or place a lid on prices, but rather to guard against extreme fluctuations so that our livestock producers and our foreign customers can be assured of a reliable source of supply.

To encourage grain to move into the reserve, entry loan levels will be determined each year. As in 1981, these levels will reflect costs, excluding land, in major producing areas and will reflect other relevant economic factors such as world supply and demand conditions.

Other incentives to participate in the farmer-owned reserve will be adjusted each year in response to supply and demand conditions. Annual storage payments will reflect storage costs and other factors.

Storage payments are expected to run somewhere between 20 and 30 cents per bushel per year, barring some unusual developments. The authority to waive the cost of interest charged to farmers during the second and third years of the program is also being requested by the Administration.

Under this proposal, farmers will be given the opportunity to enter the reserve program directly. Once they have signed a contract to participate in the reserve for a 3-year period, they will be required to hold their grain in reserve until the price reaches a release trigger. This trigger will be based on the full cost-of-production in major producing areas, as well as other factors. This proposal will allow for a wider corridor in which prices may move, reflecting basic supply and demand conditions.

The Secretary will use discretionary authority to set this level each year. Unlike the present reserve program, once the release trigger is reached, the storage payment will stop and farmers will have the choice of keeping their grain in the reserve or removing it. If they choose to remain in the reserve, they will be charged the full-market rate of interest.

There is no "call" provision in the Administration proposal, and steps will not be taken to force grain onto the market, as the current program does. However, authority to call the loans if highly unusual circumstances unfold will be retained under the Administration proposal.

To prevent the reserve from becoming too large and too costly, the Administration is recommending that the size of the reserve be limited to no more than 12-15 percent of annual U.S. feed grain output and 18-20 percent of annual wheat production. This would be in addition to the 4 million tons of wheat in our Food Security Wheat Reserve. These levels are maximums; the quantity that will be held in the reserve at any given time will reflect actual market conditions.

Production Controls

Once the reserve is full, the Administration will stand ready to offer producers a voluntary paid diversion program—if global supply prospects indicate another large crop in the offing. To further simplify the operation of commodity programs and reduce Government regulations, it is being recommended that the authority to use set-asides and the requirement to calculate Normal Crop Acreage (NCA) be abolished.

To eliminate direct Federal payments and reduce budget exposure, it is proposed that target prices and deficiency payments be eliminated beginning with the 1982 crops of wheat, feed grains, rice, and cotton.

The Administration is also proposing that low-yield and prevented-planting disaster payments be eliminated. The Administration feels they are no longer necessary as a result of passage of the comprehensive Federal Crop Insurance Act of 1980.

Dairy

The Administration has proposed a more flexible milk price support program. While the structure of the program would remain unchanged, the support level would be set between 70 and 90 percent of parity, adjusted as needed. The support level on October 1, 1981, would not be lower than the current $13.10 per hundredweight. While price-support levels above 70 percent of parity may be appropriate in many years, the Administration has requested the flexibility to adjust the support level so that supply and demand are in balance.

One commodity that remains closely regulated by a Federal Government program is peanuts. In order to see the United States become more competitive in the production and export of peanuts, the Administration has requested further changes in the peanut program which the 1977 Act started when it first modified permanent legislation. The proposal would eliminate acreage allotments and reduce poundage quotas by 10 percent annually over the next 4 years.

Food Stamp Program

The Administration has sent changes in the Food Stamp Program to the Congress with the intention that program savings can be achieved at the earliest possible time by including them in the President's Economic Recovery Program. These proposed changes have been discussed in another article in this issue of the NFR (see Proposed Food Stamp Program Changes). ■