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1990 U.S. FARM PROGRAM
A BRIEF EXPLANATION OF THE BASIC FEATURES RELATED TO GRAINS AND SOYBEANS

HARVEY L. KISER*

March 1990
No. 90-7

Department of Agricultural Economics
Kansas State University

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Contribution No. 90-409-D from the Kansas Agricultural Experiment Station, Kansas State University, Manhattan, Kansas.

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1990 U.S. FARM PROGRAM
A Brief Explanation of the Basic Features Related to Grains and Soybeans

by

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Revised.

INTRODUCTION

Many agriculturalists are confused by the large number of federal farm programs that affect the U.S. grain markets. This is true particularly for foreign buyers of U.S. grain crops. U.S. farmers often are confused when the government introduces new goals and methods of implementing the farm programs. Since farmers' incomes and their livelihoods may depend upon returns from participating in government programs, they learn to farm in response to the provisions of those programs. However, foreign buyers of U.S. grain do not have frequent contact with the farm program and its features. This paper will review the basic provisions, will explain their operation, and will show the relationship between market prices and the government support prices for U.S. farmers in 1990. The following review should be helpful in understanding the environment in which U.S. grain is produced, bought, and sold.

Background

Almost every national government provides some type of support for its grain farmers, but each national system is different. Each national system has developed under unique historical, political, and economic conditions. The U.S. program has evolved under changing economic and political conditions over the last 57 years.

Today's farm program relating to grain production and marketing began in 1933, when farmers experienced extremely low prices. Some new features have been added over the years, but today's programs, although modified, contain most of the basic principles that originated in the early 1930's.

Farm programs, conducted under the authority of the Commodity Credit Corporation (CCC), have two objectives: 1) to support the prices received by farmers and 2) to support farmer income if market prices are below "target prices."

With the passage of the Food Security Act of 1985 for crops through 1990, farm programs have taken a slightly new direction, deemphasizing the traditional objectives of price and income support. The new policy instruments are designed

to: 1) reduce government-owned stocks and the related storage, handling, and interest costs; 2) lower U.S. market prices so that they are competitive in the world market; and 3) reduce the direct cash outlays of the government.

Commodity Credit Corporation

The Commodity Credit Corporation (CCC) is a Federal corporation that is authorized, among other things, to engage in buying, selling, lending, and other activities with respect to agricultural commodities, products thereof, and related facilities. These charter powers enable the Corporation to engage in extensive operations for the purpose of increasing production; stabilizing prices; assuring adequate supplies; and facilitating the efficient distribution of agricultural commodities, foods, feeds, and fibers by using customary channels of trades. Many of the Corporation's operations are carried out in response to specific congressional mandates.

The Board of Directors of the Corporation includes the Secretary of Agriculture and the Deputy, Under, and Assistant Secretaries of Agriculture. The Secretary serves as the Chairman of the Board. The staff and operating officers for CCC are employees of the Agricultural Stabilization and Conservation Service (ASCS) of the U.S. Department of Agriculture (USDA) and most are located at the Kansas City Commodity Office in Kansas City, Missouri. It is this office that performs CCC's merchandising, processing, traffic management, and warehousing operations.

Each state has an ASCS office to carry out the functions of the CCC and to administer Federal farm programs. In addition, there is an ASCS office in each county to administer agricultural programs at the farm level. Each state and county has a committee composed of farmers, appointed by the Secretary of Agriculture, to advise ASCS officials on local and state conditions that affect the implementation of the farm program at the county and state levels.

Price Support

After a farmer harvests his crop, he can store the grain in a bin on his farm or in a commercial facility, usually a country grain elevator, or he can sell it. If the market price is below the loan rate for that crop and if the

farmer has complied with all the provisions of the farm program for that year, such as setting aside or diverting from production the required amount of acreage, he may go to his County ASCS Office to obtain a regular, nine-month CCC price support loan on the grain. If the grain is stored in a commercial facility, the farmer takes the warehouse receipt to the county office, and this receipt serves as collateral for the loan. Each county has a specific loan rate, and the average of all the counties will meet the national average loan level.

When a farmer receives the county loan rate, some costs are deducted. These costs include a loan service charge; an excise tax, which is a grain promotional levy established by some of the states; and delivery charges, if the grain is stored in a commercial facility.

When the grain is stored in a commercial warehouse, a farmer makes an arrangement for payment of the storage fees. He can prepay the storage for nine months and receive the full loan amount, or he can arrange with the county ASCS office to have the storage charges deducted from the loan. If a farmer forfeits the grain to CCC at the end of nine months for satisfaction of non-repayment of the loan, CCC will pay the elevator operator the storage charges that were deducted from the farmer's loan. However, the commercial elevator operator may insist on prepayment before he will issue a warehouse receipt, in which case the farmer will need to make arrangements to prepay the storage costs. Since he does not yet have the proceeds from the loan, the farmer may ask the county ASCS office to make a portion of the loan payable to the storing warehouseman to pay for the nine months of grain storage and/or any other expenses incurred.

The loan is for nine months with an interest rate that is based on the cost of money to the Commodity Credit Corporation (CCC) when it borrows from the U.S. Treasury. This interest rate may change every month. The interest rate was 7 3/4 per cent in January 1990, down from 7 7/8 in December 1989 and 9 percent in February 1989. A farmer will pay the interest rate that is in effect when he takes out the loan, if the loan is repaid to CCC. Existing commodity loans and facility loans will have the interest rate adjusted annually on January 1.

The loan is a nonrecourse loan. If at the end of the loan period a farmer does not repay the loan because the market price is below the loan value, he keeps the loaned money and CCC takes the grain, which has served as collateral for the loan. If the market value is less than the loan value for that crop year, CCC has no recourse to ask the farmer to make up the difference between the lower market value and the loan value. In the case of a loan forfeiture, the farmer pays no interest.

A farmer may repay the loan with the accumulated interest any time during the nine-month period. A farmer may take out a loan for the current crops of wheat, barley, and oats until March 31 of the following calendar year and for the current crops of corn, grain sorghum, or soybeans until May 31 of the next calendar year. Sometimes a farmer may choose to repay (redeem) the loans by using a PIK (Payment-In-Kind) certificate, which is more correctly defined as a generic certificate. In this case, no interest is charged and only the PCP (Posted County Price) is paid. If the PCP is below the market price, a farmer has the incentive to repay the loan at the PCP with the value of his PIK certificate and market the grain. He does not need to repay the difference between the PCP and the loan level .

PIK certificates are issued in dollar amounts rather than physical units (bushels). The rate at which certificates may be exchanged for commodities is determined by the PCP. This price is calculated by USDA using terminal market basing points and transportation differentials. The county PCP is determined by subtracting the transportation cost from the CCC terminal price. Ostensibly, PCPs represent market prices. The relationship of PCPs to local cash prices determine which commodities are exchanged for marketing certificates and the rate of release of the commodity from storage.

Loan Rate Formulas

The basic statutory loan rates for the crop years of 1987-90 are set at 75 to 85 percent of five-year average market prices, excluding the high and low years. Loan rates may not be reduced by more than 5 percent from the previous year's basic loan rate. This 5 percent restriction resulted in a basic loan rate

for 1987 of $2.85 per bushel ($104.72 per metric ton) for wheat and $2.28 per bushel ($89.76 per metric ton) for corn. Each subsequent year's statutory loan rate cannot be lowered more than five percent from the previous year's level.

In addition, the Secretary of Agriculture has the authority, under the so-called "Findley provision", to reduce loan rates by up to 20 percent, if the average market price falls below 110 percent of the loan rate in the previous year or if a reduction in the loan level is necessary to maintain the United States' competitive position in world markets.

For 1986, USDA was required to use this authority to reduce loan rates by at least 10 percent. (Any use of this loan reduction authority must be accompanied by increased deficiency payments to maintain the same total revenue for producers, which will be explained later.) Loan levels for other feed grains -- sorghum, barley, oats, and rye -- are to be set at levels that the Secretary of Agriculture determines are fair and reasonable in relation to corn.

Reductions made under the Findley provision are not to be considered in determining loan rates for subsequent years. For instance, the use of the Findley provision to reduce loan rates must be computed each year by starting at the basic (statutory) loan rate, which was $3 per bushel ($110.23 per metric ton) for wheat and $2.40 ($94.48 per metric ton) for corn in 1986, $2.85 ($104.72 per metric ton) for wheat and $2.28 ($89.76 per metric ton) for corn in 1987, $2.76 ($101.41 per metric ton) for wheat and $2.21 ($87.00 per metric ton) for corn in 1988, $2.57 ($94.43 per metric ton) for wheat and $2.06 ($81.10 per metric ton) for corn in 1989, and $2.44 ($89.65 per metric ton) for wheat and $1.96 ($77.16 per metric ton) for corn in 1990.

For soybeans, the basic 1986-88 loan rate was $5.02 per bushel ($184.45 per metric ton). However, the Secretary of Agriculture may reduce this rate by up to five percent -- to $4.77 per bushel ($175.27 per metric ton) -- if it is determined that the higher loan would discourage exports and cause excessive build-ups in stocks. For 1988-90, the soybean loan rate is to be computed at 75 percent of the average market price of the previous five years, deleting the high- and low-price years, except that the loan level can be reduced by no more

than 5 percent in any year. USDA also has authority for an additional 5 percent reduction per year, but in no event can the soybean loan levels be reduced to less than $4.50 per bushel ($165.35 per metric ton). The 1989 soybean loan rate was $4.53 per bushel ($166.45 per metric ton). The 1990 soybean loan rate will be announced no earlier than 30 days prior to September 1, the beginning of the marketing year. The final announcement must be no later than October 1, 1990.

1989 and 1990 Loan Rates and Target Prices

The 1990 price support loan and purchase levels for cereals were established using the Findley amendment, which results in loan and purchase levels 20 percent below the statutory loan level. The 1990 crop "target prices" were lowered from between 2.4 percent to 3.3 percent from the previous year's established level. Meanwhile, the 1990 price support loan and purchase levels for cereals were decreased from the 1989 levels in a range from 4.5 percent for oats to 5.3 percent for wheat. If the U.S. federal budget deficit exceeds a specified amount, these levels may be affected. Such limitations were established for the 1986 levels under the Gramm-Rudman Act and for 1988 levels under the provisions of the Omnibus Budget Reconciliation Act of 1987. For the 1990 program, a similar provision exists again for cash payments and any loan proceeds. The outlays will be reduced 1.4 percent.

The reductions for the 1990 loan rates from those of 1989 resulted in the following loan (and purchase) rates.

	1990 Loan Rates	
	($/bu.)	($/M.T.)
Wheat	$1.95	71.65
Corn	1.57	61.81
Sorghum	1.49	58.66
Barley	1.28	58.79
Oats	.81	55.80
Rye	1.33	52.36

Marketing Loans

Under current legislation, farmers are permitted to repay cotton, honey, and rice loans for as little as 70 percent of the price support loan payment they received. Under this so-called marketing loan, farmers may redeem the loan at the market price if it is lower than the loan, but in no case can the farmer redeem the loan for less than 70 percent of its value. Farmers can retain the difference between the lower market price and the original loan level and then market the grain.

Marketing loans are authorized but have not been implemented for wheat, feed grains, and soybeans. As long as there is the 20 percent reduction in the loan rates for wheat and feed grains because of the application of the Findley amendment, the marketing loan will probably not be authorized, because it would be only 70 percent of the original loan prior to the discretionary reduction. This marketing loan level would be only another 10 percent reduction. Thus, it is unlikely that the marketing loan will be implemented for wheat and feed grains, because these grains already have a variety of other programs helping to curb production and regain export competitiveness. A marketing loan has been considered but not implemented in the past to discourage the accumulation of soybeans into government inventory in years when soybean loan rates are high relative to historical relationships to corn.

Eligibility Requirements for Farmers to Receive a Loan

When the market price is below the desired support levels acceptable by public policy, which is established by farm legislation, the Secretary of Agriculture determines the amount of acres that a farmer must withdraw from production. For each specific crop, the Secretary, as mandated by Congress and with the advice and recommendations of the administrators of the Federal Budget, announces the acreage reduction program (ARP) by setting the percentage of a farmer's base acres that cannot be planted to that specific crop in order for the farmer to be eligible for loans, purchases, and payments for the current crop. The area of land that cannot be planted must be devoted to conservation uses.

Wheat

Acreage reduction program (ARP) for wheat for the 1988-90 crops is to be between 20 and 30 percent of the base acres, if the beginning stocks for the crop year are expected to exceed one billion bushels. If wheat stocks are expected to be less than one billion bushels at the end of a crop year, maximum acreage limitation is specified at 20 percent for that year. For the 1990 crop of wheat, the acreage reduction program required wheat farmers not to plant on five percent of the base acres.

After announcing the 1990 wheat program provisions in the middle of 1989, the Secretary of Agriculture presented a modification to the ARP provisions. Under a modified contract option for 1990, wheat producers could plant wheat in excess of 95 percent of the farm wheat acreage base, up to 105 percent of the base. Under this option, for each acre of wheat planted in excess of 95 percent of the wheat base, the acreage used to determine deficiency payments will be reduced from 95 percent of the wheat base by the same acreage amount. There will be no acreage conservation requirement for the farm.

Producers choosing the modified contract may not build future wheat base acreage on the farm. Wheat plantings in excess of the wheat base, up to 105 percent of the wheat base, will be credited as Conservation Use for planted and considered planted credit to other applicable program crops, if needed to protect other program crops' bases.

The Secretary is also authorized to establish a paid-land diversion program, if he determines that wheat supplies are excessive. For wheat, the Secretary was required to implement a paid-land diversion program for the 1986 crop but not for subsequent crops. For 1986, the mandatory paid diversion covered 2.5 percent of the base acreage of wheat farmers participating in the acreage reduction program. In addition, growers had the option of placing another 5 percent or 10 percent of their base acreage in the paid diversion program. Growers received payments for this diverted acreage, which was either 2.5 percent, 7.5 percent, or 12.5 percent of their base. Payment for paid-land diversion was in the form of payment-in-kind commodity certificates. PIK certificates can be sold or used by farmers to obtain grain of their choice from

CCC inventory, to exchange through the CCC for cash, or to redeem their own outstanding loans. There has been no paid land diversion for wheat since the 1987 crop.

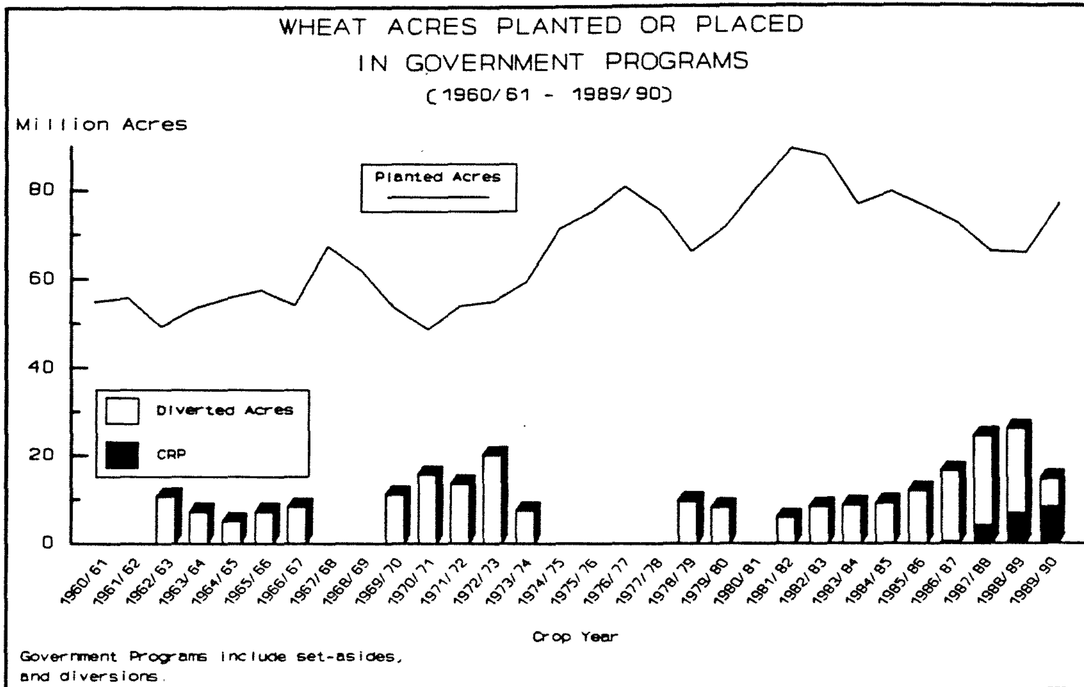
Feed Grains

Acreage limitations for feed grains for the 1987-90 crops are to be between 12.5 and 20 percent of the base acreage, if the beginning stocks for the crop year are expected to exceed two billion bushels. If the expected feed grain stocks at the beginning of the year will be less than that, the maximum acreage limitation is specified at 12.5 percent for the 1986-90 crops. The acreage reduction for 1990 corn, sorghum, and barley is 10 percent but it is only 5 percent for 1990 oats, because there is a supply shortage of U.S. produced oats.

The Secretary is authorized to establish paid-land diversion for feed grains, if he determines that supplies are excessive. For 1986 and 1987, payments were made in the form of commodity certificates to feed grain farmers who diverted additional acreage from production. The 1988 paid-land diversion payment was made on the basis of farm program payment yield at the following per bushel payment rates for 1988: $1.75 for corn; $1.65 for sorghum, and $1.40 for barley. These diversion payments were paid in PIK certificates. For 1989, there is no paid-land diversion for feed grains.

To be eligible to receive a CCC loan and income payments related to the target price, which will be discussed later, the farmer must abide by the percentage of the Acreage Reduction Program (ARP) and the mandatory portion, if any, of the paid-land diversion section of the program.

The following graph shows that fewer acres are planted because of farm program provisions. In recent years, acres planted to wheat, corn, and soybeans have dropped because a greater percent the acreage is enrolled under the farm program.


WHEAT ACRES PLANTED OR PLACED
IN GOVERNMENT PROGRAMS
(1960/61 - 1989/90)
Million Acres
Planted Acres
Diverted Acres
CRP
0
20
40
60
80
1960/61
1961/62
1962/63
1963/64
1964/65
1965/66
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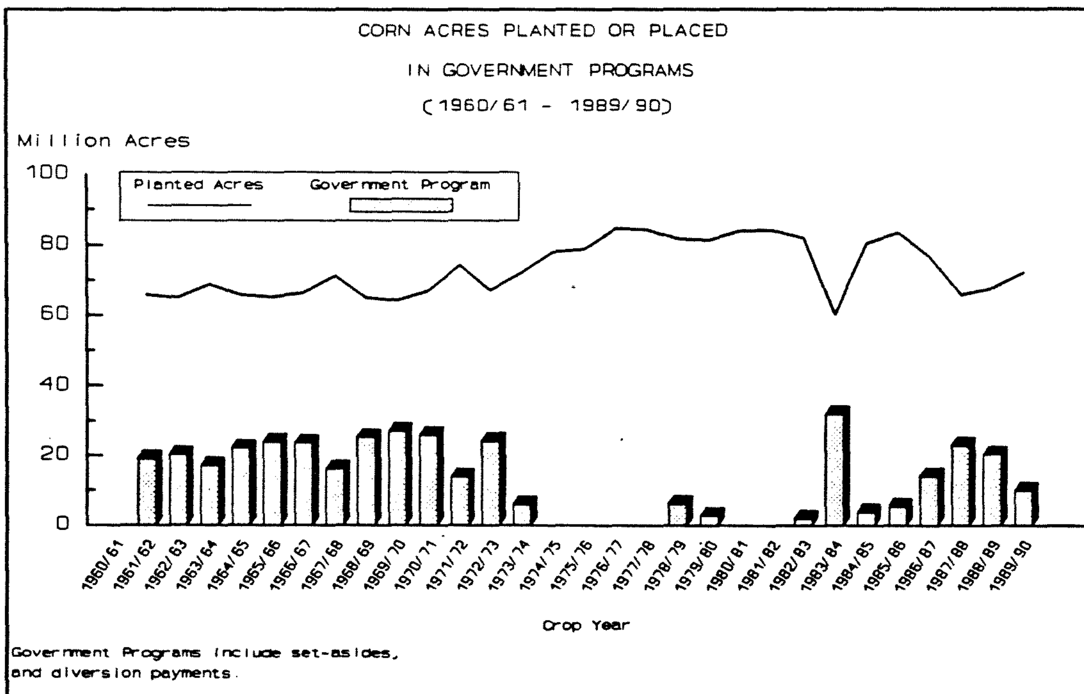
1989/90
Crop Year
Government Programs include set-asides,
and diversions.


CORN ACRES PLANTED OR PLACED
IN GOVERNMENT PROGRAMS
(1960/61 - 1989/90)
Million Acres
Planted Acres
Government Program
0
20
40
60
80
100
1960/61
1961/62
1962/63
1963/64
1964/65
1965/66
1966/67
1967/68
1968/69
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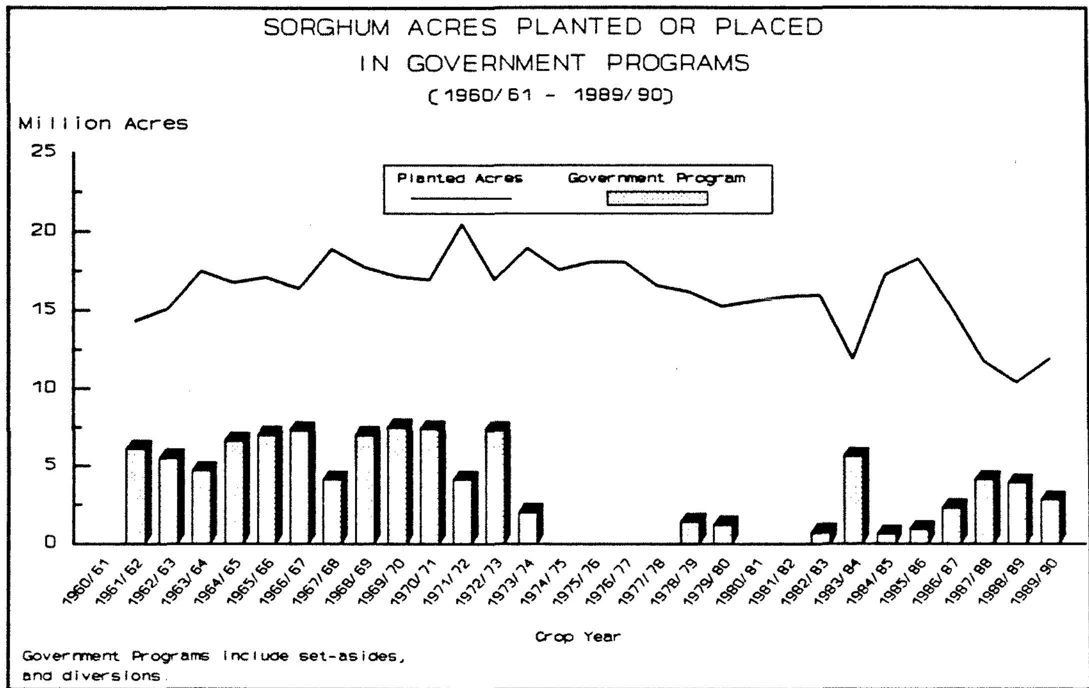


Farmer Action when Nine-Month Loans Mature

When the nine-month loan matures, the farmer has three or four choices. However, under the current administration of the Food Security Act of 1985, only two choices are really viable. The first choice is to repay the loan, including interest, with cash and market the grain. The second choice is to forfeit the grain to the CCC and keep the loaned money. The loan value of the forfeited grain becomes the purchase price for the CCC. The third choice is to redeem the loan using the dollar value of generic (PIK) certificates, which have been issued to farmers in lieu of direct cash payments. This choice is being used less since USDA has reduced the issuance of the generic certificates. The certificates being used are those that the farmers received as disaster payments in 1989. The fourth choice and a currently unused provision is to have the loan extended under a three-year contract, which may be lengthened for an additional two or three years. This extension is called the Farmer-Owned Reserve (FOR), and further entries are not allowed as long as the level of stocks remain above the minimum level.

Farmer-Owned Reserve

The objective of establishing the FOR was to permit the farmer to maintain ownership of the collateral grain. If the market price increased to the trigger release level at which grain could be released from FOR, the farmer could benefit from the price increase instead of the government (CCC). Also, the CCC would not have direct title to the grain and carry the grain on its inventory records.

Effectively, the trigger release levels for all reserves, that is, the prices at which farmers can redeem the loan on the grain from the FOR and sell it, are based on the target price. The trigger release levels for all commodities in the FOR program shall be the higher of either 140 percent of the current national average loan rate for the commodity or the target price, regardless of the loan rate in effect at the time the reserve loan was made. Because the loan rates change for each crop year, the trigger release levels would also change. Therefore, trigger release levels become effective at the beginning of the marketing year for each commodity. If grain remains in the FOR, the 1990 trigger release levels are: wheat - $4.00 per bushel; corn - $2.75 per bushel; sorghum - $2.61 per bushel; barley - $2.36 per bushel, and oats - $1.45 per bushel.

When the five-day moving average market price for a commodity reaches the reserve (trigger) release level, producers may repay their FOR loans, principal plus interest, with cash and not be subject to an early repayment penalty. Also, farmers may exchange commodity certificates for FOR grain at any time. For wheat, the five-day moving adjusted average price uses a weighted average of all five classes of wheat. The computation began using April 30, 1989 as the initial time for determining the weight of each class of wheat in the outstanding FOR loans. This average is a farm price equivalent and is calculated by subtracting an adjustment factor (price) each month from the five-day moving average price in the major market(s). Only under severe penalty can a farmer break this contract and sell his FOR grain when the market price remains below the trigger release price. When the farmer repays the extended loan under the FOR because the market price equals the trigger release price, he will need to repay the

interest on the original nine-month loan and the interest incurred during the first year of the extension of the loan under the FOR and any extensions of the FOR beyond the original contract period.

In the past, the government has provided incentives to encourage farmers to enter their loan grain into the FOR, where it remains until the market price reaches the trigger release price. These incentives also have included a higher rate for entering the loan directly into the FOR without having a nine-month loan first, but this provision has not been used in recent years. Other incentives include waiving responsibility for the interest costs after the first year in the FOR and making a storage payment to the farmer of 26.5 cents per bushel per year ($9.74 per metric ton per year for wheat, $10.43 per metric ton per year for corn and grain sorghum (milo), and $12.17 per metric ton per year for barley) for each grain. For oats, the storage payment is 20 cents per bushel ($13.78 per metric ton) per year. Soybeans are not eligible for FOR.

The current farm law prohibits the entry of additional loan grain into the FOR, if the amount of each grain exceeds a specified percentage of the total use, both domestic and export. The 1985 Act specifies minimum and maximum levels of wheat and feed grains that may enter the reserve in a marketing year. The upper limit for wheat is 30 percent of the estimated domestic and export use during the marketing year. For feed grains, the upper limit is 15 percent of the total estimated domestic and export use of feed grains during a marketing year. These upper limits may be raised (by up to 10 percent of the specified limits--or to 33 and 16.5 percent of the estimated wheat and feed grain use, respectively), if the Secretary deems the higher levels necessary to operate the FOR effectively.

The Act also establishes threshold levels for the implementation of a reserve. The Secretary of Agriculture is <u>required</u> to encourage participation in a reserve by offering producers increased storage payments and loan levels, interest waivers, or other incentives, if the total quantity of wheat and feed grains in the reserve is less than 17 and 7 percent, respectively, of total domestic and export usage, and provided the average market price does not exceed 140 percent of the loan level for the commodity.

CCC did not use this program for the 1986 and 1987 crops. The limits on the FOR are 300 million bushels (about 8.0 million metric tons) for 1990-crop wheat, and 450 million bushels (about 11.5 million metric tons) for the 1990 feed grain crops. If reserve quantities exceed the limit at the time the 1990 crop loans mature or farm prices are greater that 140 percent of the loan rate, no entry into the wheat or feed grains reserve will be permitted. When supplies are abundant and market prices do not exceed 140 percent of the respective loan rates but quantities fall below 300 million bushels for wheat and 450 million bushels for feed grains, the Secretary of Agriculture must take actions to encourage entry of grain into the FOR.

Extension of FOR or Special Producer Storage Loan and Loan Extension

When a farmer's price support loan matured and the grain was not permitted to be placed into the FOR, such as was the case for the 1986 crops, then the CCC recalled the use of a former program and extended the loan for another year. The interest that was applicable to the original loan continued to accrue until the end of the calendar year, and then the applicable interest rate changed to be the interest rate in effect on January 1. These were called special producer storage loans.

In the past, when the market price was below the trigger release price, the loan grain in the FOR, whether it was a three- or five-year FOR contract, was extended by the Secretary of Agriculture one year at a time. Storage payments to farmers continued, and interest accrued at the applicable rate for the month after the month in which the FOR contract expires. That is, if the FOR contract expired on June 30, the applicable interest rate would be the CCC interest rate for commodity loans on July 1.

Generally, CCC is no longer extending FOR contracts. FOR loans on 1983 and prior crop years of wheat, oats, and barley maturing on or after March 31, 1988, may not be extended. But producers with reserve loans on 1984 crops of wheat, oats, and barley will be offered an optional one-year extension at

maturity. Currently, such extensions will not be considered as special producer storage loans.

USDA also has curtailed the use of the special producer storage loans for wheat and feed grains. All such loans maturing on or after March 31, 1988, will not be extended. This applies to all commodities and all crop years. Thus, 1985 and 1986-crop wheat, feed grain, and soybean loans that have been extended beyond their original maturity dates will not be extended further when they mature. Additionally, 1987-crop wheat, feed grain, and soybean loans will not be extended and will not be permitted to enter the FOR.

Cross Compliance

Limited cross compliance requirements will be in effect for the 1990 crops of wheat, feed grains (except oats), upland cotton, and rice. To be eligible for benefits for a participating wheat, corn, sorghum, barley, upland cotton, or rice crop, the acreage planted for harvest (or approved as prevented planting) on a farm in other nonparticipating program commodities may not exceed the crop acreage based of those commodities. Oats and extra long staple cotton are not subject to limited cross compliance requirements.

Planting Other Crops on Program Acreage

Producers participating in the 1990 wheat, feed grain, upland cotton, extra long staple cotton, or rice programs may be allowed to plant soybeans up to 25 percent of the program crop's permitted acreage or plant unlimited sunflowers . The acreage of soybeans or sunflowers planted under this special provision will be considered planted to the program crop for which they are substituted. Program benefits for soybeans and sunflowers planted on these acreages are only those that may be applicable to soybeans or sunflowers. No crop acreage base will be increased by such plantings. Farmers will not receive any deficiency payments on the acreages on which soybeans or sunflowers were planted. Depending upon the sign-up of the number of acres and the effect of the plantings on soybean prices, the Secretary of Agriculture may reduce the percentage of substitution by a specified factor. For 1989, the maximum allowed

was a 20 percent replacement, which was determined by using a factor of 80 percent of the original maximum percentage of 25 and for 1990, up to 25 percent replacement is allowed. Farmers wanting to plant soybeans or sunflowers on their permitted acreage for the 1990 crops were required to indicate their intentions no later than February 16, 1990.

Approved and Other Non-program Crops Provisions

USDA has established rules and procedures for two programs that allow producers to plant certain approved non-program crops on conservation use acreage and up to 20 percent of the producer's 1990 program permitted acreage with other non-program crops. Other non-program crops cannot be planted on oats base acres because of the relative short supply of oats in the U.S. In either of these two cases, farmers will not earn deficiency payments from that land on which non-program crops have been planted, because they will receive replacement income from the alternate crop.

CCC Sales Policy for CCC-Owned Inventory

The CCC may sell its stocks of grain in inventory when the market price is at or above a specified level. So long as there is grain in the FOR, the CCC sales price is above the trigger release price of FOR grain, so that CCC sales will not interfere with the release of the FOR stocks. If market prices rise to levels allowing the CCC to sell grain, it may sell for "unrestricted use", either domestic or export. The minimum price that the CCC will consider accepting is the market price, as determined by the CCC, but not less than specified formula price, plus transit value, if any. The formula that the CCC uses to sell its inventory follows.

Commodity	Formula	Price (based upon U.S. national average loan level) Per Bushel; (Per Metric Ton)
Wheat	246 percent of the 1989 county loan rate for U.S. No. 1 wheat where stored.	\$2.06 x 246% = \$5.07 (\$75.69) (\$186.29)

Corn	211 percent of the 1989 county loan rate for U.S. No. 2 yellow corn where stored.	$1.65 x 211% = $3.48 ($64.96) ($137.06)
Sorghum	220 percent of the 1989 county loan rate for U.S. No. 2 sorghum where stored.	$1.57 x 220% = $3.45 ($61.81) ($135.98)
Barley	115 percent of the 1989 county loan rate for U.S. No. 2 barley where stored plus carrying charges as shown below:	$1.34 x 115% = $1.54 ($61.55) ($70.78)

	Cents Per Bushel	Monthly Price
January	30.28	$1.84 ($84.51)
Feb, Mar, Apr, May	34.07	$1.88 ($86.34)

Oats	115 percent of the 1989 county loan rate for U.S. No. 3 oats where stored plus carrying charges as shown below:	$0.85 x 115% = $0.98 ($58.56) ($67.35)

	Cents Per Bushel	Monthly Price
January	26.90	$1.25 ($85.88)
Feb, Mar, Apr, May	30.27	$1.28 ($88.20)

Soybeans	105 percent of the 1989 county loan rate for U.S. No. 2 or better soybeans where stored plus carrying charges as shown below.	$4.53 x 105% = $4.76 ($166.45) ($174.77)

	Monthly Carrying Charge-Soybeans		Monthly Price	
	cents/bu.	$/M.T.	$/Bu.	$/M.T.*
September	13.91	5.11	4.90	179.88
October	20.01	7.35	4.96	182.12
November	26.11	9.59	5.02	184.36
December	32.21	11.84	5.08	186.61
January	38.31	14.08	5.14	188.85
February	44.41	16.32	5.20	191.09
March	50.51	18.56	5.26	193.33
April	56.61	20.80	5.32	195.57
May, June, July, August	62.71	23.04	5.38	197.81

* $/M.T. are derived from the $/Bu. before the dollars were rounded.

Income Payments

The market price is defined as "deficient" when it is below an established level called the target price. If the market price is "deficient", then eligible farmers earn "deficiency payments" on the actual acreage planted, which is within their permitted acreage. The farm law established a procedure to pay farmers when the market price is below the target price. The deficiency payment rate is equal to the target price minus the higher of: (1) the national average market price received by farmers during the first five months of the marketing year or (2) the basic price support loan.

If the basic price support loan were reduced under the Findley Amendment, then farmers would receive an additional deficiency payment to cover the difference between the statutory or basic loan rate and the higher of the Findley loan level or the season's average price received by farmers.

The minimum target prices for wheat and corn, established by the 1985 Food Security Act, were as follows.

	Wheat		Corn	
	(per bu.)	(per metric ton)	(per bu.)	(per metric ton)
1986	$4.38	$160.94	$3.03	$119.29
1987	4.38	160.94	3.03	119.29
1988	4.29	157.63	2.97	116.92
1989	4.16	152.85	2.88	113.38
1990	4.00	146.97	2.75	108.26

The payment rates for grain sorghum, oats, and, if designated, barley must be set so as to be fair and reasonable in relation to the payment rate for corn.

The 1990 target prices, statutory loan rates and national average loan rates are:

Commodity (in $)	Target Prices (BU)	Target Prices (MT)	Statutory Loan (BU)	Statutory Loan (MT)	National Average Loan Rate* (BU)	National Average Loan Rate* (MT)
Wheat	4.00	146.97	2.44	89.65	1.95	71.65
Corn	2.75	108.26	1.96	77.16	1.57	61.81
Sorghum	2.61	102.75	1.86	73.22	1.49	58.66
Barley	2.36	108.39	1.60	73.49	1.28	58.79
Oats	1.45	99.90	1.01	69.58	0.81	55.80

* Determined under the Findley amendment to the Food Security Act of 1985.

The total deficiency payment is based upon each farm's program payment yield times the planted acreage within their permitted acreage. A farm's yield is based upon a five-year county average, deleting the high and low years. A farmer also can choose to document his actual yield, if this is higher than the county average. A farmer whose yield has been reduced by more than 5 percent from the 1985 program payment yield will receive payments in an amount necessary to provide the same total return he would have received with a 5 percent reduction. Actual crop yields for 1987 and subsequent years will not be used to establish 1988 and future farm program payment yields.

USDA's 1990 projected deficiency payment rates by crop follows.

Commodity (in $)	First (BU)	First (MT)	Below Nat'l Avg. Loan (BU)	Below Nat'l Avg. Loan (MT)	Total (BU)	Total (MT)
Wheat	$0.90	$33.07	$0.00	$ 0.00	$0.90	$33.07
Corn	0.79	31.10	0.11	4.33	0.90	35.43
Sorghum	0.75	29.53	0.16	6.30	0.91	35.83
Barley	0.26	11.94	0.00	0.00	0.26	11.94
Oats	N/A	N/A	N/A	N/A	N/A	N/A

Payment Limitations

Payment limitations are applied to deficiency and land diversion payments. The following payment limits apply:

A $50,000 per farmer limit applies to all land diversion payments, as well as that portion of the deficiency payment comprising the difference between the target price and the statutory (basic) loan rate. In the case of corn, the deficiency payment for the 1990 crop covered under the $50,000 payment limit

would be the difference between the $2.75 per bushel target price and the 1990 statutory loan rate of $1.96 per bushel, which equals 79 cents per bushel. For wheat, it would be the difference between the $4.00 target price and $2.44 per bushel, which equals $1.56. However, USDA projected the deficiency payment to be $0.90 per bushel, indicating that USDA is projecting a national average market price during the first five marketing months for the 1990 to be $3.10 per bushel.

A $250,000 per farmer ceiling applies to all payments received under the $50,000 cap, as well as payments received under the "Findley" 20 percent loan rate reduction. Thus, in the case of the corn example used above, the $250,000 payment ceiling also will include the difference between the 1990 statutory loan rate of $1.96 per bushel and the actual, national average ("Findley") loan rate of $1.57 per bushel or the national average price received by farmers, whichever is higher. Using USDA prices, USDA is projecting a national average corn price of $1.85 per bushel (statutory loan of $1.96 minus $0.11 "Findley" payment = $1.85).

Excluded from any payment limitation are the values of price support loans and storage payments. Payments received for enrolling acreage under the conservation reserve program have a separate $50,000 annual limitation.

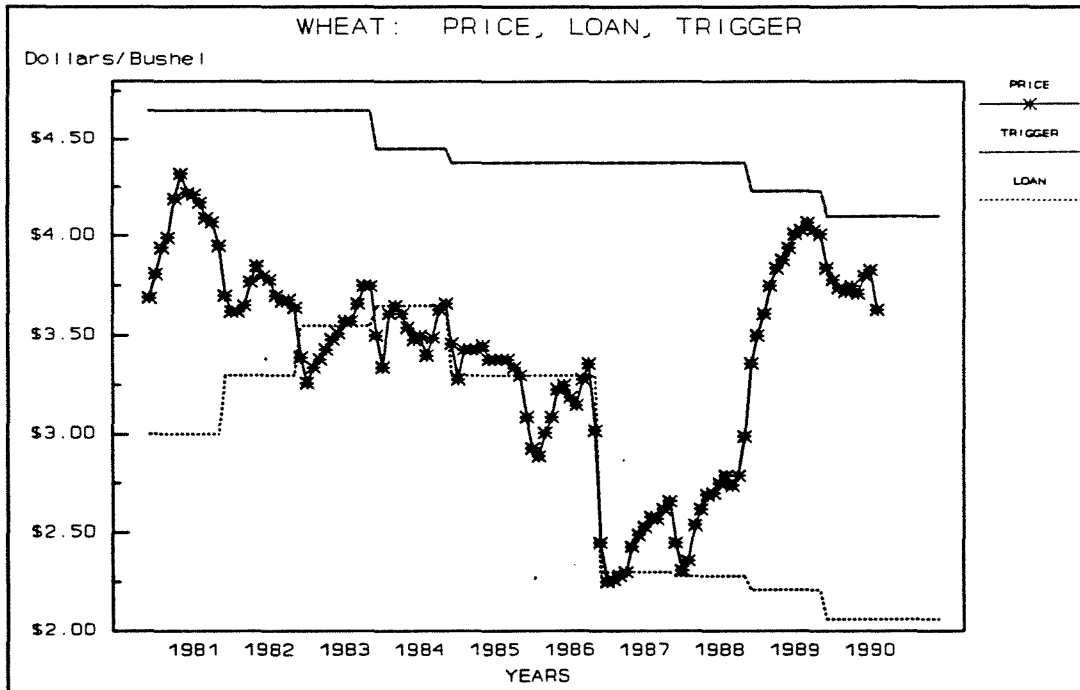
Relationships between Market Price and Loan Levels and Trigger Prices

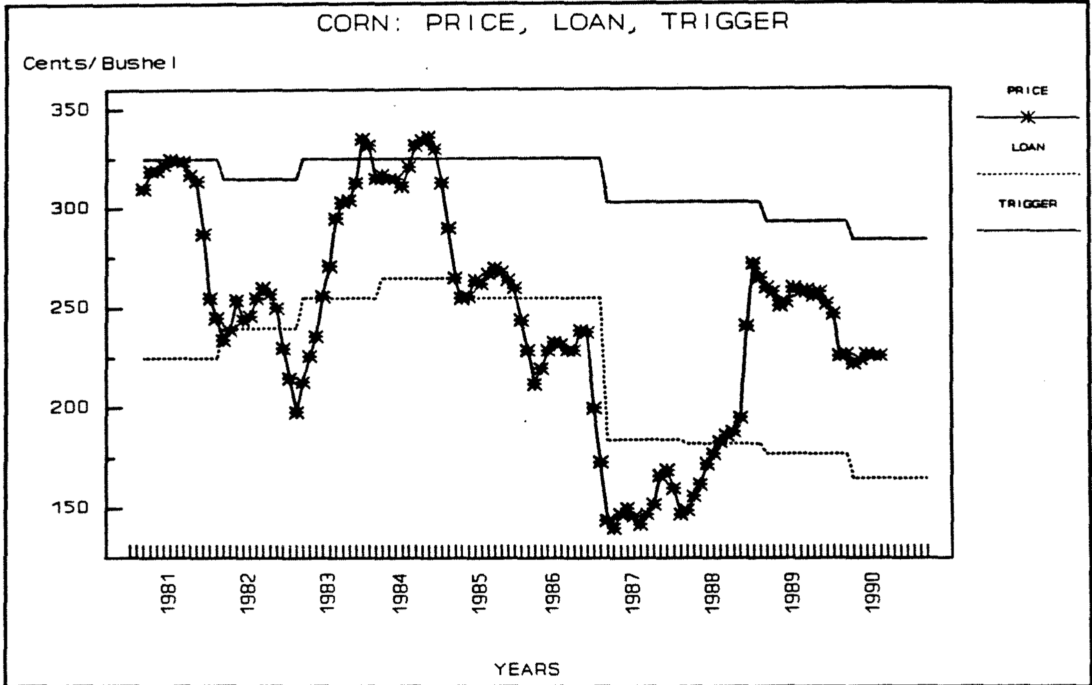
It is also important to know the relationship between the farm program provisions and the market price, if one is buying grain in the United States. In the following three graphs, the relationship between the market price and the loan level or the trigger release price can be seen. Grain can be removed from the Farmer-Owned Reserve (FOR) when the trigger release price is reached. These graphs show that when supply is in excess of demand, as defined by the loan level or the trigger release price, the market price follows loan level or the trigger release price.

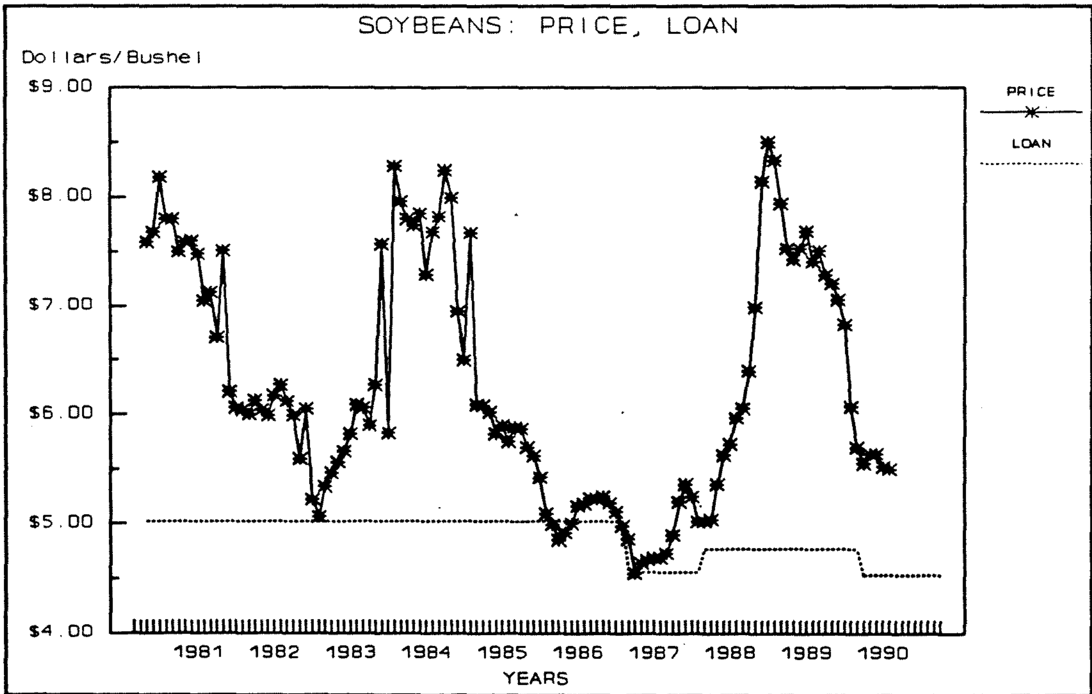
When the market price is below the loan level, then less grain is offered for sale. Thus, the only time that quantities of grain under a price support loan are offered for sale usually is when the market price is above the loan level provided by the Federal government to the eligible farmers. If the market

price of the grain equals or exceeds the trigger release price, the grain in the FOR can be sold into the market place. Thus, the trigger release price limits price increases or acts as a price ceiling as long as grain is available under the FOR program.

The loan level for wheat has had direct impact on the market price for wheat since 1983; for corn in the early 1980's and since 1985; and for soybeans primarily in the last two years. When corn prices strengthened in 1983 and 1984, because a drouth reduced production, the FOR trigger release price limited the increase in the market price. However, farmers may use the option to redeem grain under loan with PIK certificates, which would cause a downward pressure on cash prices. Redemption of the generic or PIK certificates for corn put price pressure on the corn market price for 1987 and part of 1988. These relationships are shown in the following three graphs.




CORN: PRICE, LOAN, TRIGGER
Cents/Bushel
350
300
250
200
150
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
YEARS
PRICE
LOAN
TRIGGER


SOYBEANS: PRICE, LOAN
Dollars/Bushel
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
YEARS
PRICE
LOAN

Conclusions

After reading and studying this report on the U.S. farm programs for grain farmers, one can understand why agriculturalists are confused by these programs. As with most legislation passed by Congress and signed into law by the President, farm programs are the result of the art of political compromise to meet the many and often conflicting objectives of the persons whom Congressmen and Senators represent. The Secretary of Agriculture also has powers granted to him under the charter of the Commodity Credit Corporation over and above those specified or granted in the specific farm laws. These additional powers are restricted only by the limitations specified in the farm laws or by the pressures of public opinion. An example of the Secretary's broad authority was introducing the PIK certificates without any enabling legislation.

A philosophy held by many persons related to agricultural production and marketing is that prices, determined by the interaction of world supply and demand, should guide farmers in making their decisions of which crops to plant and how much to plant. However, in recent years, farmers have calculated that their greatest returns occur when they participate and meet the requirements specified in farm programs.

The U.S. government is trying to extract itself from influencing the production and marketing decisions of farmers and merchants. The removal of government influence on day-to-day decision-making will most likely occur with a long-term expansion of demand from countries whose economies are recovering and whose consumers can afford to upgrade their diets. If economies of importing countries are going to grow, macro economic and fiscal policies of those countries and of the U.S. may be as important as, if not more important, than any particular farm law passed by the U.S. government. The U.S. production and marketing system is capable of producing and delivering much larger quantities of grains to the world market than what is now being demanded.