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Larry Janssen
South Dakota State University, larry.janssen@sdstate.edu

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Farm Price and Income Programs

by Larry Janssen, Assistant Professor of Economics

Congress will have many different farm price and income program alternatives to consider in 1981. Alternative farm programs have different impacts on the level and stability of farm incomes, food prices and supplies, Federal Treasury costs, and agricultural exports. Present wheat and feed grain programs, selected alternatives, and their possible impacts are discussed.

Present Programs

The 1977 Food and Agriculture Act uses a combination of loan rates, target prices, farmer-owned grain reserves, and voluntary production control programs for supporting prices and income for wheat and feed grains. Loan rates, set within broad limits by the Secretary of Agriculture, provide a price floor and are usually set below market-clearing price levels. Target prices, which are usually higher than loan rates, are set in relation to average crop production costs with annual adjustments made for changing nonland input costs. Deficiency payments are made to eligible farmers when a commodity's national average market price falls below its target price during the first five months of the marketing year. Deficiency payments are the difference between the target price and the average market price or loan rate whichever is higher.

The 1977 Act also authorized a farmer-owned grain reserve for wheat and feed grains. This reserve is used in combination with the nonrecourse loan program and allows the government to set minimum loan rates, intermedidate release-prices, and maximum call-prices. Farmers retain ownership of grain held in the reserve and make the final marketing decisions. The grain reserve program enables farmers to store grain in anticipation of later price rises, helps assure adequate grain supplies for domestic needs and export sales, and helps stabilize farm prices.

Set-aside or acreage diversion programs may be implemented if excessive grain supplies are forecasted. Program compliance is voluntary for individual farmers but is necessary if they are to receive program benefits.

The combination of loan rates, target prices, production controls, and grain reserve programs are the current tools of U.S. policymakers to provide greater price and income stability to farmers, and more stable grain supplies to domestic consumers and foreign customers. However, in years of depressed prices, these programs can result in high Federal Treasury outlays. Further, since program benefits are based on grain production volume, small and medium-size family farms do not receive as much income support as large farms do.

Modify Present Programs

The present farm program was enacted during a time of increasing grain stocks and declining farm prices. In all probability, the next farm act will be written during a time of reduced grain stocks and improved farm prices. Some program options would increase market orientation and reduce government costs; other options would reduce market orientation and reduce government costs. Consider loan rate and target price alternatives. Both could be set in a fixed relation-

ship to changing production costs. Target prices could be further increased to fully reflect land charges. Substantially higher target prices and loan rates would reduce price uncertainty for producers and consumers. Loan rates would set the market price. Program costs and food costs would probably increase. Expanded reserve programs would become necessary as grain stocks increased with set-aside provisions used to reduce production. If loan rates were set above world market price levels, additional subsidies would be needed to maintain the U.S.'s export markets or our competitive position in international trade would be jeopardized.

Another option would be to maintain loan rates at relatively low levels but substantially increase target prices. Market prices would not initially be affected but over time producers would probably respond to higher target prices by increasing production. Deficiency payments funded by Federal Treasury outlays would substantially increase.

Farm program costs could be reduced by lowering loan rates and target prices. Target prices could be set to cover only average out-of-pocket costs (excluding land charges) with loan rates set slightly lower. Producers would only receive protection from serious price declines. Price instability would increase for producers, consumers, and foreign customers but agricultural exports would remain competitive in world markets.

<u>Other Farm Policy Alternatives</u>

Only a few major programs have been discussed. Other policy alternatives include (1) free markets, (2) mandatory Government production and market controls, (3) farm bargaining legislation, (4) farm program benefits targeted to specific groups (such as low resource farms) and (5) farm programs redirected to achieve soil and water conservation objectives. Policy selection is made in the political process and includes the interests of farmers, rural communities, consumers, and taxpayers. It is important to remember than no combination of farm policies and programs can satisfy all interests. Economic and political tradeoffs are necessary.

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