Federal Reserve Bank of Chicago - -

March 21, 1975

Agricultural Letter

Number 1318

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FARM PROGRAM REVISIONS are being debated in both houses of Congress with most attention centering on the bill now moving through the House of Representatives. (Rapid Senate approval is expected on any bill that clears the more consumer oriented House.) Although compromises are likely to insure passage, the House bill would boost target prices and loan support rates of major Midwestern crops 50 to 80 percent above current levels.

The farm bill currently in the House is viewed as a one-year emergency stopgap measure. It would affect program benefits only for 1975 crops. The bill would boost the target price of corn to $2.25 per bushel—up from the current $1.38—and peg the target price of wheat at $3.10 per bushel—up from $2.05. Loan support rates specified in the bill are $1.87 per bushel for corn and $2.50 per bushel for wheat. These compare to present support rates of $1.10 for corn and $1.37 for wheat. (Target prices are used in determing program payments to farmers if market prices fall below target levels; support rates reflect the collateral value of crops placed under nonrecourse loans with the CCC.)

Other provisions of the bill include the reestablishment of a loan support rate for soybeans at $3.81 per bushel—the former support program for soybeans was terminated last year. But for a last minute floor amendment, the bill would have boosted dairy support prices to 85 percent of parity with quarterly adjustments, up from the current 80 percent of parity maintained by annual adjustments. The increase was defeated but the quarterly adjustments are part of the bill.

The arguments, pro and con, associated with the type of farm program revisions embodied in the proposed House bill often overlook some important related issues and long-term consequences. Even though the House bill is a one-year measure, it will no doubt serve as a basis for debate concerning upcoming revisions to existing legislation, primarily bills covering the 1976 and 1977 crop years.

Much recent discussion on the issues of target prices and loan support rates—and their appropriate levels—has focused on a cost of production concept as opposed to the more traditional concept of parity support. While this change in emphasis has merit, the question of what proportion of production costs should be covered—variable costs including seed, fuel, labor, etc., or charges to capital and management—is an important issue. Establishing target prices at a total cost of production level, as the current House bill does, would guarantee farmers sufficient government payments to cover a market rate of return, including returns to management and capital (land). But, since annual farmland transfers represent a small fraction of total farmland in production, most farmers have a land investment substantially below current market values. Unduly large program benefits would be capitalized into land values, thus inflating land prices and assuring increases in long-term food production costs. The philosphy behind the cost of production concept is a marked departure from the market oriented approach of recent farm programs.

If loan support prices were to be set above market clearing levels this, too, would boost food costs. The most evident gains would be in prices of milk and dairy products. But support rates that exceed market clearing levels for corn and other feed grains also would be reflected in higher food prices for all livestock products in time. (Since support rates trigger government purchases as well as acquisitions via defaults on nonrecourse CCC crop loans, they also tend to put a floor under market prices.)

Unduly large farm program benefits also would affect international trade, which is essential to U.S. agriculture. Since the United States accounts for over one-half of the world's grain trade, restrictions that artificially raise domestic prices also would raise offering prices in world markets. Such moves would stimulate both production in importing countries and reduce this country's competitive advantage.

Arguments favoring large boosts in farm program benefits stress that increases are needed to promote all-out production in order to build up grain reserves and to provide larger shipments of grain to needy nations. Also, farmers' incomes have dropped sharply and are expected to decline further during 1975. The reduction in farm income reflects both the continued drop in farm level prices and surging production costs, leaving little incentive to expand production.

From the first week of January to the first week in March corn prices declined 16 percent, wheat prices were off 20 percent, and soybean prices dropped 24 percent. On the other hand, prices paid for crop production items are up sharply, some, such as fertilizer and seed, by as much as 50 percent over a year ago. As a result, farmers have revised their 1975 planting intentions (January 1 versus March 1) so as to reduce planted corn acreage 3 percent, drop soybean acreage 1 percent and spring wheat acreage 4 percent.

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As this issue of Agricultural Letter went to press the bill was being debated on the floor of the House.