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NEW AGRICULTURAL LEGISLATION will likely be forthcoming in the near future since much of the legislation currently in effect will expire within this year. While some farm programs will be totally discontinued, others will revert to existing permanent legislation. Reinforcing the impetus for action is a general environment of declining farm prices which has prompted calls for higher target prices and/or loan rates than are currently in effect, or will be in effect once adjustments mandated by present legislation have been made. Furthermore, legislation authorizing spending in the fiscal year beginning October 1 must be reported out of committee by May 15, 1977.

Expiration of current legislation affecting wheat and feed grains—without new legislation—would eliminate many things by the end of the 1977 crop year: the concept of target prices and deficiency payments, disaster payments, acreage allotments, set-aside provisions, and land diversion payments. The $20,000 limitation on payments which a person is entitled to receive under one or more of the annual feed grain, wheat, and cotton programs would expire. Although the range of milk price supports—75 to 90 percent of parity—would remain in effect because of existing permanent legislation, other parts of the dairy program would expire in 1977. Public Law 480, which provides surplus food to needy countries under long-term credit and grants, will expire December 31, 1977. Other programs affecting cotton and food stamps are either expiring or reverting to original legislation.

Without new legislation the price supports for corn, starting with the 1978 crop, would be made available through loans or purchases at a level not less than 50 percent (65 percent if an acreage diversion program is in effect) or more than 90 percent of parity as the Secretary of Agriculture determines will not result in increasing stocks of corn. The current parity price for corn is $3.28 per bushel. Other feed grains would be supported at levels which are "fair and reasonable" in relation to the support level for corn. The wheat program would revert to a system of "marketing quotas"—if proclaimed by the Secretary and approved by two-thirds of the farmers voting in a national referendum. Marketing quotas would include a mandatory average diversion, a land-use penalty for failure to divert, a wheat marketing certificate, and no diversion payments. If the Secretary does not proclaim a marketing quota, or if the national referendum fails to pass, a program of price supports through loans and purchases at 50 percent of parity would be available to wheat producers who comply with their acreage allotment.

New legislation will likely be forthcoming in those areas where the programs presently in effect will either expire or revert to previous legislation. Furthermore, there is increased speculation that some aspects of the programs now in effect for 1977 crops may be modified. For example, target prices and loan rates on feed grains, wheat, and cotton may be subject to upward adjustments.

The impact of any revision in target prices and loan rates must be evaluated carefully in light of recent changes in the supply/demand situation for several commodities. For example, U.S. carryover wheat stocks at the end of the present crop year—May 31, 1977—are projected to be at the highest level since 1963, a level of inventory generally described as surplus. Milk production increased markedly in 1976 and most observers anticipate that continued increases will push milk prices down to support levels and trigger large government purchases in the months ahead. World grain stocks dropped sharply in 1972 and held at relatively low levels for the next three years. But a record world grain harvest this year will substantially replenish world stocks. Current estimates suggest world grain stocks at the end of the 1976-77 crop year will be up 40 percent from a year ago and about equal the average level of the sixties.

Perhaps the most critical aspect of future legislation is the judgment of the congressional body on the relative merits of being in a slight surplus position compared to a balanced position or one of tight supplies. Once a surplus situation develops for any commodity it is extremely difficult to resolve, at least in a historical perspective. For example, U.S. corn supplies grew consistently from the early 1950s until 1961 despite a persistent downward trend in prices and programs to reduce acreage (see back of **Letter**). The problem persisted during the 1960s and early 1970s until world yields of grains were suppressed by inclement weather conditions in 1972.

Farm legislation in 1977 will most likely involve concepts and methods already in effect. In addition to possible revisions for target prices and loan rates, there may be a move to establish a more permanent grain reserve. (However, some observers consider the current large supplies of wheat more than ample for future contingencies.) The May 15 deadline for reporting new legislation out of committee, to say nothing of possible financial constraints, suggests that most legislation will be extended for a short period with a minimum of change. Nevertheless, even minimum changes in present programs relating to target prices, loan rates, and price supports could have a profound effect on the farm sector, both in the short term and long term.

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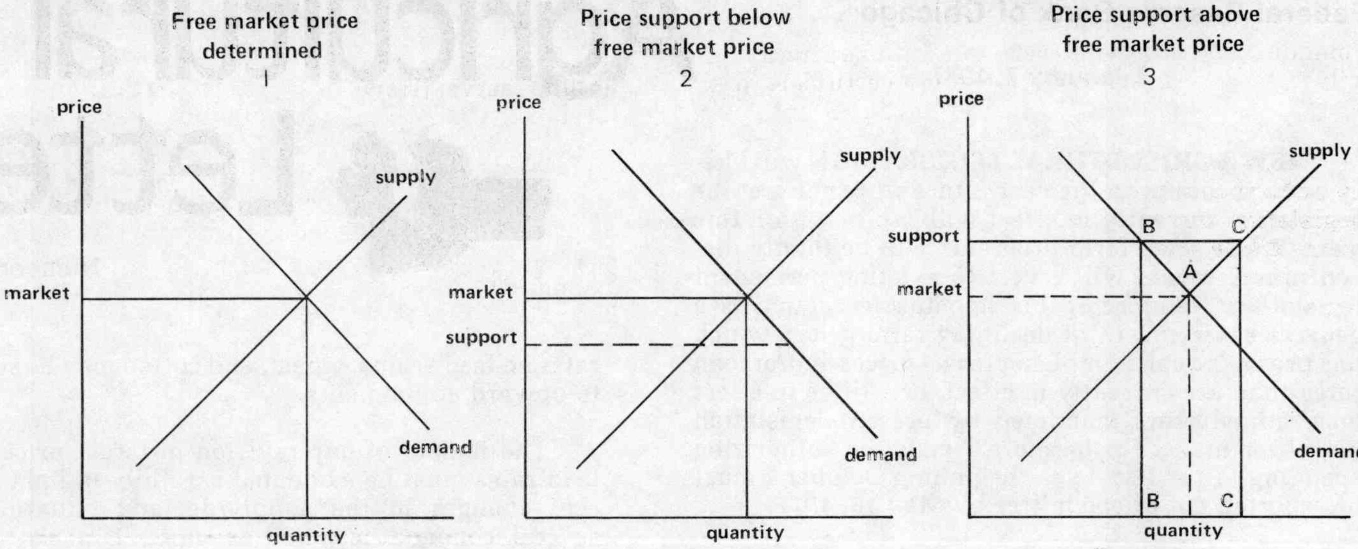
Potential impact of price supports on commodity utilization



The market is cleared at the point where the supply curve intersects with the demand curve.

Since the support price is below the market clearing point it has no impact on either supply or demand.

The higher support price reduces the quantity demanded from point A to point B while the amount supplied is increased from point A to point C. The resulting surplus can be measured from point B to point C.

The above diagrams show the potential for developing surpluses when price supports are set above free market prices. A situation similar to number 3 existed for corn from 1952 through 1962 despite production controls imposed at the time (see below). The above are rather simple illustrations of what may be a complex set of variables in a real world situation. In most cases, neither the supply nor demand curves are permanently fixed or linearly extended. However, despite their simplistic shortfalls the above diagrams portray how commodity surpluses can develop.

Corn support prices higher than free market prices result in increased carryover stocks