# ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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## ECONOMIC CONSEQUENCES OF 1977 FARM LEGISLATION

THE FOOD AND AGRICULTURAL ACT OF 1977 will have economic consequences for Illinois farmers on 1977 corn and wheat crops and affect their 1978 decisions.

Wheat growers will receive deficiency payments on their 1977 crop. For an individual farmer, the payment will be about 65 cents a bushel times the allotment acreage times the farm program yield. Wheat loans of $2.25 per bushel are available for those who have not yet sold their crop.

Corn growers will be eligible for a loan of about $2 a bushel for all that they produced in 1977, since there was no set-aside program in effect. No deficiency payments will be paid because the target price and the loan rate are both $2 a bushel and there is no difference on which to base a deficiency payment. The availability of a $2 loan is expected to gradually move corn market prices up to around the loan. However, how many farmers will actually take out the loan will depend upon their need for funds, storage available, and loan maturity date that would affect availability of storage for the 1978 crop.

A 20 percent set-aside program has been announced for 1978 wheat, and a 10 percent set-aside program announcement for feed grains is expected by November 15. To participate a farmer would simply set aside 20 acres of land for each 100 acres of wheat and 10 acres for each 100 acres of corn he plants for 1978 harvest.

A higher percentage of wheat growers than corn producers is likely to participate since the differences between market prices and target prices appear to offer greater benefits for wheat. As in the past, farmers will take their poorest land out of production and plant their better-quality land. So actual reduction in output will be significantly less than 20 percent for wheat and 10 percent for corn.

Farmers will receive no direct payment for acres taken out of wheat or corn. By participating in the set-aside program, they are eligible for the $3 or $3.05 target price and $2.35 loan rate for wheat, a $2.10 target price and $2 loan for corn, and any disaster payments if planting is prevented or if low yields occur. Their costs of program participation are the losses from acres left out of production.

The extended loan program or farmer-held reserve, a new feature in the 1977 act, pays farmers for storing grain for three to five years. If sufficient amounts of grain are placed under this program, the government will be able to limit how high grain prices will go in times of reduced supply or increased demand. With the corn loan at \$2, the government could force most farm-stored reserve corn on the market when prices reach \$2.80 to \$3.20 a bushel. Government-owned corn stocks could be sold at \$3 a bushel if there is grain in the farmer-held reserve or \$2.30 if there is none.

The 1977-78 program will pay out an estimated \$1.5 billion in deficiency payments to farmers and cost of total of \$4.1 billion. The 1978-79 program is expected to pay out \$2.6 billion in deficiency payments and require \$4.4 billion in total government outlays. Payment limitations for wheat, feed grain, and cotton producers go up from \$20,000 in 1977 to \$40,000 in 1978 and \$45,000 in 1979. As in the past, with program payments tied to acreage and output, the largest producers will receive the largest proportion of the program benefits.

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