WEEKLY OUTLOOK
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PAYMENT IN KIND

THE USDA IS CONSIDERING A NUMBER OF ALTERNATIVE measures that it might take to help reduce the current surplus of feedgrains, wheat, and cotton. Much of the surplus is expected to be stored at the government's expense, either in the farmer-owned reserve or by direct ownership in the Commodity Credit Corporation. The size of the farmer-owned reserve has grown beyond its intended purpose, which was to minimize the effects of year-to-year variations in production. The cost of maintaining those inventories has also grown beyond acceptable levels.

The USDA has initiated a number of programs to help stimulate foreign purchases of U.S. grain. In addition, it has renewed efforts to lower world trade barriers. On the supply side, the USDA has offered a more attractive acreage reduction program for 1983 crops and has indicated that entry into the farmer-owned reserve will be more limited than in the past.

There is still a great deal of concern that these programs may not be completely successful in helping to reduce the surplus. History suggests that partial acreage reduction programs do not necessarily decrease production. This past year is the most recent example. It is probably this concern that has led the USDA to consider some nontraditional methods of reducing production and lowering the level of surplus inventories. One of the more interesting proposals being considered is the payment in kind (PIK) program. Because this is a relatively new concept, the details of implementation are just entering the evaluation phase.

In general, the program would require the producer to idle a portion of his acreage in return for receiving government held grain. This program would presumably operate in addition to the already announced reduced acreage program for 1983. An early proposal recommends that the PIK program be offered only to producers who idle 100 percent of their base acreage. This stipulation would insure that productive land is idled and total production potential reduced. The details of payment would, obviously, have to be worked out. Presumably the producer would receive a less-than-normal amount, as some portion of the production expenses would not have been incurred.

From the government's standpoint, this type of a program has some distinct advantages. Production potential could be effectively reduced, surplus grain could be moved out of government hands, and additional cash outlays for reduced acreage minimized.

There are also some distinct advantages from the producer's standpoint. By taking ownership of grain rather than a fixed sum of money the producer could profit from a price increase. In addition, farmers with a severe cash flow or credit problem could continue to maintain the business. The PIK program probably has some pitfalls, but it is an interesting alternative and deserves full consideration.

In the long run, though, it will be necessary to prevent a recurrence of the present situation. The tradition of supporting farm incomes through price-support mechanisms may come under more scrutiny. Perhaps the market should be left with the responsibility of balancing the variations in supply and demand, and other mechanisms for supporting incomes should be explored.

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