



# WEEKLY OUTLOOK

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## UPDATE ON PAYMENT IN KIND

SECRETARY BLOCK RECENTLY REVIEWED THE USDA's current thinking on the payment in kind (PIK) program, which is viewed as a supplement to the already announced set-aside program for feedgrains, wheat, and cotton in 1983. In the case of feedgrains, the current program recommends a 20 percent set-aside, with diversion payments made on half of that acreage. The PIK program is being considered for producers who would idle additional acreage, up to 50 percent of the base, for which they would be offered a uniform payment rate. Whole base set-aside may also be considered, with the payment rate based on farmer bids.

The USDA proposes to pay producers by giving them certificates of title at the beginning of the marketing year (October 1, 1983, for corn). Grain would be physically transferred wherever desired at a somewhat later date. However, the producer would become responsible for storage costs at the time that the title is transferred. The grain could be sold at any time. Supplies for marketing in kind payments are most likely to come from the farmer-owned-reserve.

As details are worked out on the proposed program, two important and difficult steps need to be taken: (1) the modification of existing reserve contracts so that ownership can be transferred to the government; (2) the computation of payment in kind against the \$50,000 annual payment limitation made to individual producers.

The effectiveness of current efforts to reduce production in 1983 will obviously depend partly on the attractiveness of the program and the level of producer participation. Production will also depend on the nature of the 1983 growing season and the resulting yields. A high level of participation would be possible in the program along with large crops and market prices below the loan rate. That is, under the worst circumstances, the USDA would give grain to farmers at the beginning of the year and farmers would sell it back at the end. At best, reduced acreage programs are not viewed as a "quick fix" to the current surplus problem. With normal weather and without major improvement in world economics, the grain surplus will not disappear in 1983-84.

This observation has two implications. First, it points up the necessity of keeping loan and target prices at relatively low levels so that CCC inventories do not accumulate. This necessity was discovered in the 1960s when the corn loan rate was \$1.06. The rate increased to \$1.20 in 1961 but by 1965 was down to \$1.05 and stayed there until 1974. In retrospect, the increase in loan rates for the 1983 crops may adversely affect reducing stocks. Second, any favorable price reaction that results in 1983 crop prices above government support levels should be carefully considered as a pricing opportunity.

Historically, set-aside programs have led to an increase in soybean acreage. From 1961 through 1972, diverted acreage of corn and wheat averaged almost 30 million acres per year. During that period soybean acreage nearly doubled. The same pattern was observed under the set-aside programs of 1978, 1979, and 1982. We can expect another increase in soybean acreage in 1983.

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