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PROPOSED PROGRAM CHANGES UNFOLDING

THE CURRENT ADMINISTRATION IN WASHINGTON HAS consistently expressed the desire to see USDA commodity price support programs reduced in favor of a more market oriented approach. This desire is reflected in recent administrative proposals to be included in the 1985 Farm Bill.

Basically, the federal government would like to get out of the business of supply control by gradually eliminating current acreage set-aside programs. It is believed that these programs encourage increased plantings in other parts of the world which in turn provides more competition for U.S. grain commodities in the world market. In addition, partial set-aside programs are relatively inefficient. There is typically a high percentage of "slippage" between the amount of set-aside acreage and the actual level of reductions in planted acreage.

Secondly, the administration has expressed a desire to lower the level of commodity price supports. Specific proposals revealed to date call for variable loan rates set at 75 percent of the average price of the previous three years, or perhaps of the previous five years, with the high and low price eliminated from the calculation; as an example, a corn loan rate for 1985-86 based on such a plan would be about $2.10 per bushel. Such loans would be changed from the current status of nonrecourse to recourse loans; that is, all loans would be repaid by producers and the Commodity Credit Corporation (CCC) would not take title to grain in lieu of repayment of the loan. The concept of a farmer-owned reserve would be eliminated but a "humanitarian" grain reserve would be maintained.

Recent proposals also call for a gradual reduction in target prices to a level equivalent to the loan rate. This move would reduce or perhaps eliminate deficiency payments. These payments would presumably be made only if the market prices were below the loan rate.

A recent administrative proposal calls for acreage reduction programs to be gradually eliminated as follows. Producers would qualify for the reduced level of price supports by idling 15 percent of their base acreage in the first year, 10 percent the second year, and 5 percent the third year. From the fourth year forward all producers would be eligible for price supports without any reduction in plantings. The implication of the proposals for the already announced program for 1985 is not clear.

Theoretically, the elimination of acreage controls and the reduced level of price supports would allow producers to be more responsive to market forces and more competitive in the world market. Acreage would be shifted among crops or idled completely based on cost of production and supply, demand, and price prospects of the various crops.

The immediate impact of the type of proposals described above would in large part depend on producers' response. A lack of participation in the initial set-aside programs and a return to full production would likely keep considerable pressure on grain prices, assuming no other significant changes in the world grain situation. Low grain prices would be expected to initially result in lower land rents and then reduced plantings and eventually higher grain prices.

In summary, the current proposals call for a shift in commodity programs toward the "soybean model"--no acreage controls and a "safety net" under prices. Given the current financial stress within production agriculture, such proposals may meet stiff resistance from the agriculture community and perhaps in Congress.

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