Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY
OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

November 27, 1985

PROGRESS ON THE 1985 FARM BILL

ON SATURDAY, NOVEMBER 23, THE U.S. SENATE APPROVED a version of the 1985 farm bill. The House approved a different version earlier, so the differences between these bills must now be negotiated by a compromise committee. It is generally believed that the Senate version will be supported with some modification to reduce the costs to the U.S. Treasury.

The grain and oilseed provisions of the Senate version contain a lot of detail about target prices, loan rates, the reduction of acreage, and direct payments. The bill moves commodity policy further in the direction of market orientation, but not very far. The following is a brief summary of the major provisions.

Target Prices. For wheat, flexible target prices would be established, or target prices would increase in proportion to the amount of idled acreage. Under the flexible program, producers who idled 20 percent of their base in 1986 would receive a target price of $2.85 on the first 2,000 bushels produced, $4.65 for the next $18,000, and $4.15 for any production over 20,000 bushels.

For feed grains, target prices would remain at the current level for 1986 and then would decrease 5 percent annually for the next three years. But producers would be compensated for the 1987 cut be receiving government-owned stocks of grain equivalent to the 5 percent cut. Payments-in-kind during 1988-89 would be subject to the availability of government stocks. No compensation would be made in 1989-90.

The bill also approves the use of stocks of the Commodity Credit Corporation as advance deficiency payments.

Loan Rates. The Senate bill calls for lower loan rates but would allow a maximum reduction of 5 percent in any year. The loan rate for soybeans would remain at $5.02 for the 1985 crop and after that would be a minimum of $4.25. Beginning in 1986, the bill would also require marketing loans for wheat, feed grains, cotton, and rice. Discretionary authority is provided for a marketing loan in the case of soybeans. Program yields would be fixed at the average for the period from 1981 through 1985, not including the years with the largest and smallest yields. Farmer-owned reserves would also be retained.

Reduction of Acreage. Beginning in 1989, the bill calls for eliminating programs that reduce acreage for wheat, feed grains, cotton, and rice. For the years 1986 through 1988, maximum set-aside requirements would be 15 percent for feed grains. Depending on the level of carryover stocks, however, the Secretary could increase the maximum. The bill also establishes a conservation reserve that would take a maximum of 40 million acres out of production by the end of 1990.

Direct Payments. The Senate bill allows a direct payment to soybean producers for the 1985 crop. The payment would be $35 per acre or $1.00 per bushel, whichever compensation would be higher.

Implications. The Senate version of the 1985 farm bill reflects the generally held view that lower market prices would improve export prospects for U.S. grains and oilseeds. The increased exports, then, are expected to make U.S. agriculture prosperous again. Until prosperity returns in two to four years, producers will be compensated with large government expenditures.

This fundamental assumption should be viewed with some caution. To sharply increase U.S. exports will require either a significant increase in the world market for grains and oilseeds or the ability of the U.S. to undersell the rest of the world. The potential size of the world market is debatable. Modest growth is probable. The history of the wheat market does not provide a lot of support for the theory that the U.S. can undersell the rest of the world. Production capacity for wheat, feed grains, and soybeans being in place around the world, competition in the world market will remain very keen.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801