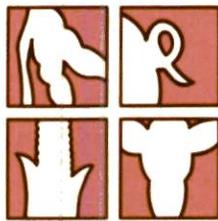




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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FARM PROGRAMS WILL REMAIN IMPORTANT IN GRAIN MARKETS

U.S. grain markets have a long history of major government involvement. Farm program activity is currently at a very high level. Current supply control measures include the voluntary acreage-reduction program for feed grains and wheat, the paid diversion program for feed grains, the 0/92 program, and the conservation reserve program. On the demand side, exports have been increased by a significant drop in the loan rates of the Commodity Credit Corporation (CCC) and by direct subsidies through the export enhancement program. CCC-owned stocks of wheat and corn are being moved into the market place by allowing the industry to purchase stocks from the CCC catalog. An active auction program has moved substantial quantities of wheat into the market place. The widespread use of generic commodity certificates has also encouraged movement of corn out of the regular 9-month loan program into the market place. But this week's decision (which reverses an earlier decision) to extend the 1984 farmer-owned reserve loans and the 1985 and 1986 regular loans on corn and sorghum will have just the opposite effect. Although many members of Congress and the Administration publicly favor a smaller role for the federal government in U.S. agriculture, government programs have rarely been more dominant than at the current time.

Based on provisions of the 1985 Food Security Act, government programs will continue to play a major role in the grain markets in the immediate future. That act provides for the continuation of acreage-reduction programs through the 1990 crop year. The magnitude of acreage-reduction that can be implemented depends on the projected size of carryover stocks. For wheat, the acreage reduction is to be announced no later than June 1 of the year previous to the year in which the crop is to be harvested. The 1989 program is to be announced no later than June 1, 1988. If carryover stocks of wheat on June 1, 1989, are projected to be less than 1 billion bushels, the acreage reduction program must be 20 percent or less. If stocks are projected to exceed 1 billion bushels, the reduction must be between 20 and 30 percent. The same rules apply for the 1990 crop.

For feed grains, the program is to be announced no later than September 30 in the year preceding the year of harvest. If carryover stocks on September 1, 1989, are projected to be less than 2 billion bushels, the acreage-reduction program for feed grains must be 12.5 percent or less. If corn stocks are expected to exceed 2 billion bushels, the reduction must be between 12.5 and 20 percent. The same rules apply for the 1990 crop. In separate legislation, a 10-percent paid diversion program is also required for the 1989 feed grain crop. The conservation reserve program will continue through 1990.

With declining stocks of wheat and feed grains, many in the industry are suggesting that the set-aside requirement for 1989 crops should be at the lower end of the permitted range. In addition, legislation to permit soybeans to compete more aggressively with program crops is also being encouraged.

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The 1985 Food Security Act gives the Secretary of Agriculture considerable flexibility in implementing program provisions. The Secretary, for example, has the authority to implement a marketing loan program of soybeans, feed grains, and wheat. Considerable debate will continue about the effectiveness of such programs. The generic commodity certificate program will also have to be reevaluated over time.

Trade legislation currently being developed by Congress could also influence farm programs. In particular, the legislation could address marketing loans and export subsidy programs. Debate on the 1990 Farm Bill will also officially begin soon. Informal discussion about policy directions is already very active in the agricultural community.

Although specific program provisions will undoubtedly change, perhaps several times, over the next few years, it appears unlikely that major government involvement in the grain markets will disappear anytime soon.



**Issued by Darrel Good
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