

March 11, 1977

FARM PROGRAM PROPOSALS to replace legislation expiring this year have emerged in four bills in recent weeks; the Talmadge bill, the Harkin bill, the Bellmon bill, and the McGovern bill. The Administration's bill is expected to be introduced later this month at the conclusion of the scheduled committee hearings. As yet, there is no clear indication as to what form the final legislation is likely to take. However, the wide range in proposals to date leaves plenty of room for compromise in the final act. Moreover, the basic characteristics of the existing proposals have diverse implications to farmers, consumers, and taxpayers, all of whom should keep abreast of the scope of discussion.

**Current and proposed loan rates
and target prices***

	Wheat		Corn		Milk supports (percent of parity)
	Target price (dollars per bushel)	Loan rate	Target price (dollars per bushel)	Loan rate	
Proposed levels					
Talmadge (D. Ga.)	2.91	2.18	2.28	1.71	n.a.
Harkin (D. Io.)	n.a.	2.74	n.a.	2.11	85
McGovern (D. S.D.)	3.55	3.06	2.52	2.17	90
Bellmon (R. Ok.)	3.10	2.25	2.25	1.87	80
Current levels	2.47	2.25	1.70	1.57	77
January market prices	2.43	—	2.34	—	9.65**

*Target prices determined deficiency payments to farmers when market prices fall below the target price. Loan rates determine the amount a farmer can borrow from the Commodity Credit Corporation.


**Dollars per hundredweight.

The Talmadge bill would extend the current mechanism of loan rates and target prices for five more years. In contrast to current programs, however, loan rates and target prices would be specifically tied to per unit costs of production. The production cost concept in the Talmadge bill incorporates all direct charges, all prorated overhead charges, and a composite land charge based on share rents, cash rents, and average acquisition value. The production costs are estimated annually and converted to per unit (bushel) costs based on the past five-year weighted average per acre yields. The Talmadge bill would set target prices equal to the per unit costs of production, and set loan rates at a minimum of 75 percent of the target price.

The Harkin bill would eliminate target prices and set loan rates at 95 percent of the per unit cost of production for the next five years. The bill utilizes the same cost of production concept as the Talmadge bill—including the composite land charge—but relies on the most recent year's yield in converting to a per bushel cost. In conjunction with the high loan rates the Harkin bill would limit a farmer's nonrecourse loan indebtedness to a maximum of \$100,000. The bill would also institute a five-year reseal loan program with all

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storage and interest costs after the first year paid by the government. The intent of the reseal provisions is to accumulate on-farm grain reserves equivalent to 15 percent of the average annual utilization—including exports—during the previous three years.

The Bellmon bill is a four-year proposal that, in many respects, resembles the mechanism of current programs. As in the 1973 act target prices are established without benefit of a precise formula, although cost of production is considered in the target prices initially established. And as in current programs target prices are adjusted annually based on changes in the index of prices paid by farmers. The Bellmon bill establishes new minimum loan support rates and—as in current legislation—permits the Secretary of Agriculture to raise wheat and corn loan rates up to a maximum of 100 percent and 90 percent of parity, respectively.

The grain reserve proposal in the Bellmon bill is tied to set-aside acreage provisions. In years in which set-aside provisions are imposed, the farmer has the option of growing grain on the acreage set-aside, or leaving it idle. If planted to grain, however, the output from such acreage must be placed under loan rather than marketed through normal channels. In such situations the grain would have to be held under loan for five years, or until market prices exceed 150 percent of the loan rate. In addition, the Bellmon bill would also establish a separate reserve for processed foods.

The McGovern bill was introduced with the intent that its provisions be considered in a multiyear extension or revision of current programs, although it specifically represents a one-year proposal to amend current legislation for 1977 crops. The bill would set target prices at the per unit cost of production. As opposed to the Talmadge and Harkin bills, however, the McGovern bill costs land at its current market value, which results in substantially higher target prices. Loan rates under the McGovern bill are set at 85 percent of the target price. Other than the high loan rates, the McGovern bill—like the Talmadge bill—offers no other special provisions for a grain reserve program.

Dairy provisions are only specifically addressed in the Harkin, the McGovern, and the Bellmon bills; all of which propose quarterly adjustments in the support price for milk. The proposed level of support, however, ranges from 80 percent of parity (Bellmon bill) to 90 percent (McGovern bill). The Harkin bill would place milk supports at 85 percent of parity.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	February	187	+ 2.2	0
Crops	1967=100	February	202	+ 2.0	+ 5
Livestock	1967=100	February	174	+ 2.4	- 5
Paid by farmers	1967=100	February	200	+ 1.0	+ 5
Production items	1967=100	February	199	+ 1.5	+ 4
Wholesale price index (all commodities)	1967=100	February	190	+ 1.1	+ 6
Foods	1967=100	February	185	+ 1.9	+ 3
Processed foods and feeds	1967=100	February	182	+ 1.5	+ 3
Agricultural chemicals	1967=100	February	184	+ 0.7	- 5
Agricultural machinery and equipment	1967=100	February	193	+ 0.5	+ 9
Consumer price index (all items)	1967=100	January	175	+ 0.6	+ 5
Food at home	1967=100	January	181	+ 1.1	0
CASH PRICES					
Corn	dol. per bu.	February	2.31	- 1.3	- 7
Soybeans	dol. per bu.	February	6.99	+ 2.6	+ 55
Wheat	dol. per bu.	February	2.44	+ 0.4	- 33
Sorghum	dol. per cwt.	February	3.53	- 1.7	- 14
Oats	dol. per bu.	February	1.62	+ 2.5	+ 11
Steers and heifers	dol. per cwt.	February	35.70	+ 1.7	- 3
Hogs	dol. per cwt.	February	39.30	+ 3.4	- 18
Milk, all sold to plants	dol. per cwt.	February	9.58	- 0.7	- 2
Broilers	cents per lb.	February	24.0	+11.6	- 5
Eggs	cents per doz.	February	66.2	+ 1.7	+ 11
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Quarter	91.3	- 2.7	+ 1
Net realized farm income	bil. dol.	4th Quarter	20.3	- 6.9	- 15
Nonagricultural personal income	bil. dol.	January	1,406	+ 0.2	+ 9
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	January	162	+ 0.6	+ 11
Time deposits	1972-73=100	January	191	+ 1.6	+ 18
Demand deposits	1972-73=100	January	126	- 0.9	+ 3
Total loans at agricultural banks ¹	1972-73=100	January	186	+ 2.3	+ 20
Production credit associations					
loans outstanding:					
United States	mil. dol.	January	12,140	- 4.6	+ 13
Seventh District states	mil. dol.	January	2,300	- 0.1	+ 21
loans made:					
United States	mil. dol.	January	1,974	- 8.1	+ 10
Seventh District states	mil. dol.	January	376	- 7.9	+ 10
Federal land banks					
loans outstanding:					
United States	mil. dol.	January	18,692	+ 0.9	+ 15
Seventh District states	mil. dol.	January	3,592	+ 1.7	+ 21
new money loaned:					
United States	mil. dol.	January	376	+ 8.9	+ 16
Seventh District states	mil. dol.	January	90	+34.3	+ 34
Interest rates					
Feeder cattle loans ²	percent	4th Quarter	8.74	- 0.5	- 1
Farm real estate loans ²	percent	4th Quarter	8.94	- 0.2	0
Three-month Treasury bills	percent	2/17-2/23	4.67	+ 1.1	- 4
Federal funds rate	percent	2/17-2/23	4.74	+ 0.9	- 1
Government bonds (long-term)	percent	2/14-2/18	7.64	+ 0.4	- 4
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	December	2,081	- 1.9	+ 6
Agricultural imports	mil. dol.	December	1,096	+12.8	+ 43
FARM MACHINERY SALES					
Farm tractors	units	December	11,318	+58.3	- 17
Combines	units	December	1,927	+56.5	- 14
Balers	units	December	567	+19.1	- 41

¹Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

²Average of rates reported by district agricultural banks.