

Analysis of the U.S. Commodity Loan Program with Marketing Loan Provisions. By Paul C. Westcott and J. Michael Price, Market and Trade Economics Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 801.

Abstract

Over the next several years, crop prices are projected to be below to slightly above commodity loan rates. As a result, marketing loan benefits to farmers, in the form of loan deficiency payments and marketing loan gains from the commodity loan program, are likely to continue to be sizeable. The level of realized per-unit revenues facilitated by marketing loans exceeds commodity loan rates, thereby raising expected net returns to farmers. Model simulations show that the loan program can raise total acreage planted to major field crops, generally increasing levels of domestic use and exports while lowering crop prices. Cross-commodity effects of supply response to relative returns (including marketing loan benefits), however, result in acreage shifts among competing crops, which can lead to reductions in plantings of some crops in some years. Most impacts occur in the years when there are marketing loan benefits, with little effect in subsequent years when prices rise high enough to eliminate marketing loan benefits. The livestock sector benefits from these outcomes because of generally lower feed costs.

Keywords: Commodity loans, marketing loans, nonrecourse loans, loan deficiency payments, price support, commodity programs.

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