for wheat and rice, 15 percent for corn. Farmers who retired that much of their acreage would receive diversion payments on 5 percent of their land at the rate of $3 a bushel for wheat, $1.50 a bushel for corn, and $3 per hundredweight of rice. Along with acreage reduction came an export promotion program starting at $175 million for fiscal 1983 and reaching $190 million in fiscal 1985. To protect farmers from lower prices, loan levels were raised to $3.65 for wheat and $2.65 for corn. Farmers in the program also qualified for early receipt of deficiency payments.

In the fall of 1982, the administration began discussing more drastic means of cutting production than the diversion plans in the Omnibus Budget Reconciliation Act. The plan that evolved was to make sharp cuts in production and reduce Government stocks at the same time by paying farmers not to produce, with payments to be made in the form of Government-held commodities. The payment-in-kind (PIK) program could have been initiated under existing authority, but on December 9 Secretary Block asked Congress to clarify its legal position by suspending the $50,000 payment limitation and the requirement that CCC sales be at levels 110 percent or more of farmer-owned grain reserve trigger prices. When Congress failed to act by the end of its session, the Secretary went ahead and formally announced the PIK program on January 11, 1983.

The PIK program bore some resemblance to its predecessors in the 1960s, but differed in three important ways. First, it applied to more crops: wheat, rice, and upland cotton, as well as corn and grain sorghum. Second, under the new program, commodities would actually be transported to farms (or nearby storage facilities) at Government expense instead of being converted to cash certificates, as most had been in the 1960s. And third, to insure a large participation, payments to farmers were much higher. As in the 1960s, farmers first had to divert part of their land to be in the price support program at all. Then, they had the option of diverting between 10 and 30 percent more for PIK payments. In addition, farmers could bid to remove their whole base acreage of a crop from production. Payments were set at 80 percent of normal yield for all crops except wheat, where the rate was 95 percent. By contrast, the level during most of the 1960s had been 50 percent of the county support rate. In March, Congress passed a law clearing up some of the confusion in the tax laws about treatment of PIK crops. Farmers responded to the PIK program by enthusiastically signing up. A total of 82 million acres were pledged for diversion to conserving uses under PIK and related acreage reduction programs, the largest amount of land ever taken out of production in the United States. This meant that over a third of the land normally planted in PIK crops would be idle. Many of the bids to remove whole base acreages from production were accepted. In all, enough land was removed from production to cause concern in the input industries about the effects of PIK on purchases of supplies and equipment.

The PIK program, like the 1981 Agriculture and Food Act, turned out somewhat differently than expected due to unforeseen events. High participation meant greater costs; $9 billion in Government-owned commodities were paid out to farmers in 1983. Moreover, PIK had been predicated on normal weather but 1983 brought the worst drought since the 1930s. Crops in the Midwest, Southeast, and Southwest were seriously affected. Corn production, expected to decline by a third, dropped by half. Cotton, sorghum, soybeans, and a number of other crops also registered steep declines. Prices for PIK commodities, except wheat (which was unaffected by the drought) rose more strongly than had been anticipated. The effects of the drought on the financial condition of farmers, however, were extremely uneven. Farmers who had idled most of their land under PIK emerged in good shape after selling the surplus crops they received from the Government. Those in drought areas who had not participated suffered heavy losses. Moreover, despite generally large Government stocks, the CCC did not own enough wheat and cotton to pay PIK farmers. To solve this problem, USDA obtained grain from the farmer-owned reserve and called in some 1983 price support loans, allowing farmers to retain their loan money while the CCC received the crop. In the case of cotton, however, rising cotton prices put producers at a disadvantage compared with what they could have gotten in the market. Thus, on July 30 a new law gave farmers a second chance to supply cotton for PIK. To relieve drought-striken farmers, Congress included a provision in the Dairy and Tobacco Adjustment Act that allowed livestock producers to purchase surplus corn in poor condition at a reduced rate. Other congressional proposals for delayed repayments on FmHA loans and a broader disaster payment program failed. A Senate bill that would have set up an export PIK program to subsidize exports also failed.

Dairy and tobacco programs also underwent modification during this period to reduce surpluses and Government costs. The omnibus act froze dairy price supports for 1983 and 1984 at their 1982 level of $13.10 per hundredweight, with 1985 supports to be adjusted so they equalled the same parity level that $13.10 represented as of October 1, 1983. The CCC's authority to donate surplus dairy products to needy persons domestically and overseas was expanded. The Secretary was also permitted to make two deductions of 50 cents each from price support payments for each fiscal year between 1982 and 1985. The first would occur if Government purchases of dairy surpluses exceeded 5 billion pounds of milk (or the equivalent) in a given year; the second deduction, to begin April 1, 1983, would be for years when Federal purchases went above 7.5 million pounds. The second deduction would be rebated to farmers who reduced production by a percentage determined by the Secretary (but not greater than the percentage of surplus milk to total production). A provision in the House bill that would have set up an industry-dominated board to administer a two-tiered price plan was dropped by the conference committee.

The No Net Cost Tobacco Program Act of 1982 (July 20, 1982) was also designed with an eye to the budget. Passed in response to the 1981 Agriculture and Food Act's requirement that the tobacco program be revised so it would not cost taxpayers anything beyond administrative expenses, the 1982 Act was a compromise between the tobacco industry and critics who wanted to see the whole program dismantled. Under the new act, tobacco farmers had to contribute to a fund administered by their cooperative marketing association. This fund would be used to repay the Government for any losses incurred in its tobacco price support operations. Allotment holders who leased their quotas also had to pay into the fund beginning with the 1983 crop. The Secretary received permission to lower price supports on tobacco grades being produced in surplus, so long as they were not reduced to a point where the weighted average of all tobacco supports fell below 65 percent of what it otherwise would have been. During years of surplus production, flue-cured tobacco growers could sell up to 10 percent of their crop at special auctions without the usual price supports. The act retained the allotment and quota system but made it more likely that allotments would be owned by actual farmers rather than investors. Corporate and institutional allotment and quota owners had to sell their interest by December 1, 1983, unless they were actively involved in farming or managing farmland. Only active farmers who shared the risk of growing the crop could purchase allotments or quotas from either institutions or individuals.

The administration continued its efforts in 1983 to reduce the cost of agricultural programs. That spring, it proposed an omnibus bill that would have frozen target prices and reformed the dairy and tobacco programs. The target price freeze failed but on November 29 the President signed the Dairy and Tobacco Adjustment Act of 1983, which made some substantial changes. The dairy program had continued to be expensive. Production outstripped demand by about 10 percent and the Government was expected to spend $3 billion in 1983 to buy surplus dairy products. The new law put dairy producers under a voluntary diversion program similar to that for crops. Farmers participating in the 15-month plan could cut their production between 5 and 30 percent for payments of $10 per hundredweight. To prevent an adverse effect on the beef markets due to culling of cows, participants had to report how much of their reduction would come from culling; diversion contracts could then be revised to prevent the sudden sale of too many cows. The price support was reduced from $13.10 to $12.60 per 100 pounds. A further 50-cent deduction for pay for the diversion programs was to be taken until April 1, 1985, at which time it could be replaced by a 50-cent reduction in support if Government milk purchases were expected to top 6 billion pounds, and another 50-cent reduction on July 1 if such purchases were expected to be above 5 billion pounds. If purchases on the latter date fell below 5 billion pounds and there was a need for more milk, price supports could then be increased by 50 cents. The act also repealed the second of the two 50-cent assessments required in 1982, after strong complaints from dairymen. Participation in the dairy diversion plan was relatively low.

The tobacco program also underwent a number of changes. In July, Congress froze tobacco support prices for 1983 at their 1982 levels. The Dairy and Tobacco Adjustment Act extended this into 1985 for flue-cured tobacco, with provision for an increase in 1985 should much higher production costs justify it. Burley supports in 1984 could not change in any way that would narrow the difference between burley and flue-cured supports. Lower quality grades could have their supports reduced if necessary to facilitate marketing. The tobacco quota system underwent further revision. Nonfarming owners of flue-cured and burley quotas did not have to sell them until December 1, 1984; certain categories of ownership were exempted from mandatory sale. On the other hand, flue-cured quotas could no longer be leased beyond 1986; burley quotas could no longer be leased in the fall. Lessees would not have to pay the assessments used to repay the Government for possible losses from its tobacco program.

The extra-long staple cotton program also changed in 1983. On August 26, the President signed a bill that put extra-long staple cotton under a target price system similar to that for upland cotton and authorized paid acreage reductions. The law dropped the 1984 loan rate on extra-long staple cotton from 96.25 cents a pound to 82.5 cents. In September, a bill passed requiring earlier announcements of wheat programs.

The trend toward reducing the cost of price support programs continued in 1984 with the passage of the Agricultural Programs Adjustment Act of 1984, signed on April 10. This act prevented the automatic target price increases scheduled in the 1981 Agriculture and Food Act from going into effect. For wheat, the target price for 1984 and 1985 was set at $4.38 a bushel instead of the previously required $4.45 and $4.65, respectively. Acreage reduction continued with some adjustments from 1983. For 1984 and 1985, the act required a 20-percent acreage reduction program plus a 10-percent paid diversion. Payment under the diversion was set at a minimum of $2.70 per bushel, half to be paid at signup. In addition, wheat producers could join a

10- to 20-percent PIK program for 1984 which had a payment of 85 percent of normal yield. The Secretary limited 1984 payments (including PIK) to $50,000.

Feed grains, upland cotton, and rice target prices for 1985 were frozen at their 1984 levels of $3.03 for corn, 81 cents for cotton, and $11.90 for rice. PIK programs were not announced for these commodities but provision was made for diversion of excess acres. For 1984 crops, diversions were established as per the 1981 Act. For 1985, the new law made feed grains subject to an acreage reduction of between 5 and 20 percent if the Secretary estimated that carryovers on September 30, 1985, would be above 1.1 billion bushels. At least 5 percent would be in the form of a paid diversion at a rate of at least $1.50 per bushel; reductions over 15 percent were to be divided equally between paid diversion and unpaid acreage reduction. For upland cotton, a carryover above 3.7 million bales on July 31, 1985, would trigger a reduction of at least 25 percent. Twenty percent of upland cotton acres would be an unpaid reduction: the remainder would be paid for on a sliding scale according to how much the carryover was expected to be, with 27.5 cents a pound as a minimum. Rice acreage would be reduced if stocks on July 31, 1985, were estimated to exceed 25 million cwt. The terms were similar to the cotton program, except that the minimum rate of pay was $2.70 per cwt. As with wheat, half the feed grains, upland cotton, and rice diversion payments were to be made when farmers joined the program. The act also appropriated $250 million more for emergency loans in fiscal 1984 and raised the amount that could be guaranteed to individual farmers.

CONCLUSION

Price support programs have changed comparatively little in their 50 years of existence. Price supports were designed to address the perennial problem in American agriculture--the ability of farmers to produce far more than can be consumed at home or sold abroad. As recent events show, this problem remains in part because of dramatic changes in the technology and structure of agriculture. The goals of 1933--to protect farm income and control surplus production--are the same as those today. In one respect, though, there has been a significant evolution. Early price support programs, especially those during and after World War II, relied heavily on high support levels and controls that were mandatory after they had been approved by producers of the crops affected. Since the early 1950s, the trend has been to rely more on the marketplace to set prices and voluntary programs to reduce acreage.

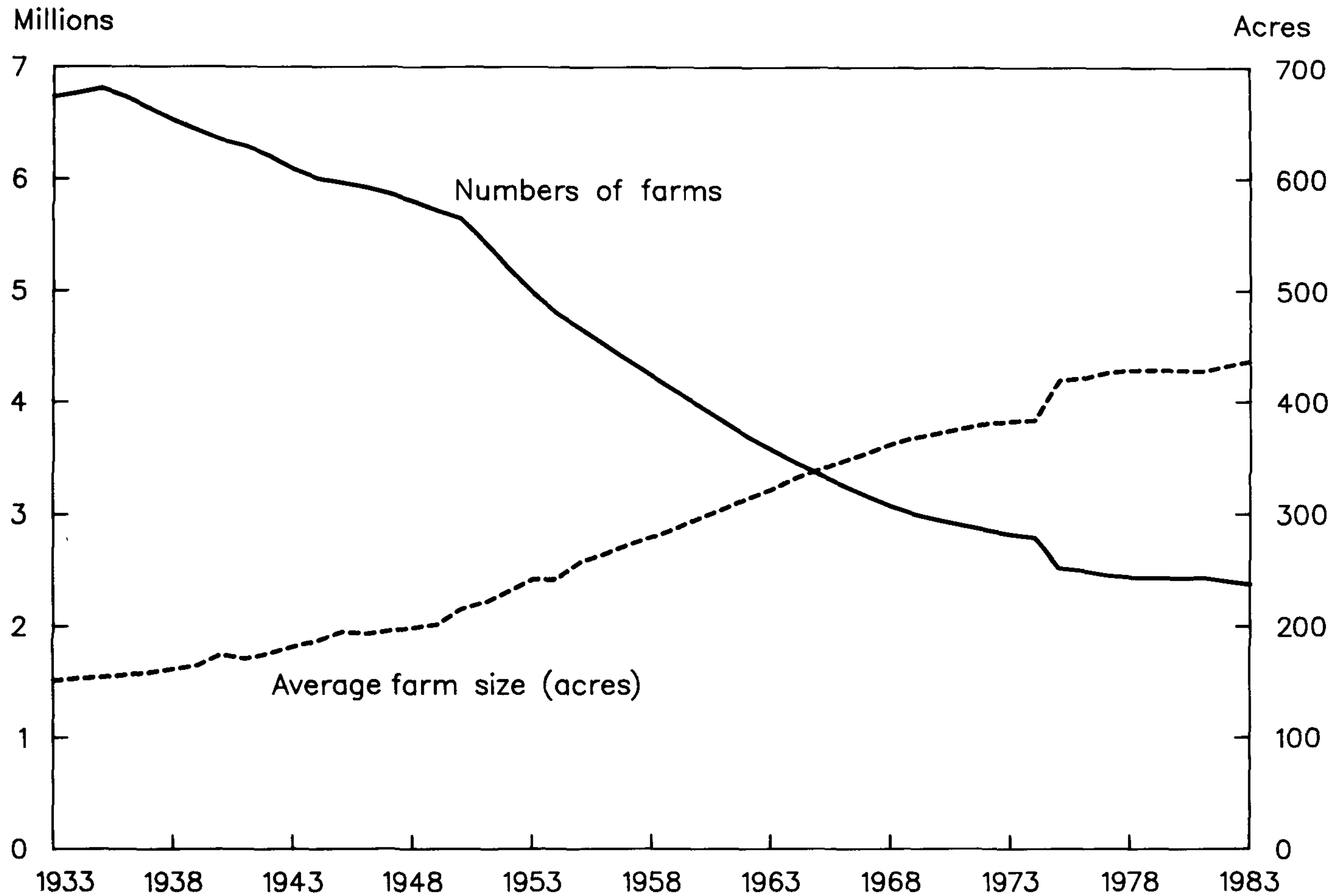
The past 20 years have also witnessed changes in the political and economic environments in which agricultural policy is made. Farmers have lost much political power as their numbers have steadily declined. They have increasingly had to ally with other groups in Congress to obtain farm bills and have had to accept modifications in programs at the request of cost-conscious urban interests. Congressional budget reforms of the mid-1970s have also had an impact on farm legislation. Agriculture has come to rely more than ever on exports, which has made prices more volatile and unpredictable. Changing farm size has also had implications for policy. American farmers have been through many economic cycles where demand has been greater than supply for awhile, only to be succeeded by excess production and lower prices. This is what has happened over the past decade and today the agricultural economy is again confronting a problem with surpluses. As so often in the past, policymakers face the difficult task of balancing supply and demand and of supporting farm income while keeping Government expenditures under control.

Production, prices, and price supports of three major commodities, 1949-83

Year	Corn			Wheat			Cotton		
	For grain production	Supports*	Prices	Production	Supports*	Prices	Production	Supports*	Prices
	Bil. bu.	- - Dollars - -		Bil. bu.	- - Dollars - -		Mil. bales	- - Cents - -	
1949	2.946	1.40	1.24	1.098	1.95	1.88	16.1	27.2	25.6
1950	2.764	1.47	1.52	1.019	1.99	2.00	10.0	27.9	40.1
1951	2.629	1.57	1.66	.988	2.18	2.11	15.1	30.5	37.9
1952	2.981	1.60	1.52	1.306	2.20	2.09	15.1	30.9	34.6
1953	2.882	1.60	1.48	1.173	2.21	2.04	16.5	30.8	32.3
1954	2.708	1.62	1.43	.984	2.24	2.12	13.7	31.6	33.6
1955	2.873	1.58	1.35	.937	2.08	1.99	14.7	31.7	32.3
1956	3.075	1.50	1.29	1.005	2.00	1.97	13.3	29.3	31.8
1957	3.045	1.40	1.11	.956	2.00	1.93	11.0	28.8	29.7
1958	3.356	1.36	1.12	1.457	1.82	1.75	11.5	31.2	33.2
1959	3.825	1.12	1.05	1.118	1.81	1.76	14.6	30.4	31.7
1960	3.907	1.06	1.00	1.355	1.78	1.74	14.3	29.0	30.2
1961	3.598	1.20	1.10	1.232	1.79	1.83	14.3	31.9	32.9
1962	3.606	1.20	1.12	1.092	2.00	2.04	14.9	31.9	31.9
1963	4.019	1.25	1.11	1.147	2.03	1.85	15.3	31.7	32.2
1964	3.484	1.25	1.17	1.283	1.78	1.37	15.2	32.8	31.1
1965	4.084	1.25	1.16	1.316	1.72	1.35	15.0	32.6	29.4
1966	4.117	1.30	1.24	1.305	1.90	1.63	9.6	29.6	21.8
1967	4.760	1.35	1.03	1.508	1.85	1.39	7.4	31.0	26.7
1968	4.450	1.35	1.08	1.557	1.83	1.24	10.9	31.9	23.1
1969	4.687	1.35	1.16	1.443	1.94	1.25	10.0	34.4	22.0
1970	4.152	1.35	1.33	1.352	2.00	1.33	10.2	37.0	22.9
1971	5.646	1.35	1.08	1.619	1.79	1.34	10.5	35.0	28.2
1972	5.580	1.41	1.57	1.546	1.72	1.76	13.7	35.9	27.3
1973	5.671	1.64	2.55	1.711	1.46	3.95	13.0	41.5	44.6
1974	4.701	1.38	3.02	1.782	2.05	4.09	11.5	38.0	42.9
1975	5.841	1.38	2.54	2.127	2.05	3.55	8.3	38.0	51.3
1976	6.289	1.57	2.15	2.149	2.29	2.73	10.6	43.2	64.1
1977	6.505	2.00	2.02	2.046	2.90	2.33	14.4	47.8	52.3
1978	7.268	2.10	2.25	1.776	3.40	2.97	10.9	52.0	58.4
1979	7.939	2.20	2.52	2.134	3.40	3.78	14.6	57.7	62.5
1980	6.639	2.35	3.11	2.374	3.63	3.91	11.1	58.4	74.4
1981	8.119	2.40	2.50	2.799	3.81	3.65	15.6	70.9	54.0
1982**	8.235	2.70	2.68	2.765	4.05	3.55	12.0	71.0	59.1
1983**	4.166	2.86	3.20	2.420	4.30	3.54	7.8	76.0	67.2

*Includes target prices as well as loan rates. **Preliminary.

Number of Farms and Average Size, 1933–1983



INDEX

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