

Summary

The commodity loan program has had significant budgetary outlays over the past few years, largely related to marketing loans. As crop prices declined in the late 1990's, total marketing loan benefits rose from less than \$200 million for 1997 crops to more than \$3.8 billion for 1998 and about \$8 billion for 1999 crops. USDA's February 2000 baseline projections indicate a continuation of sizeable marketing loan budgetary costs for the next several years, as crop prices are projected to be below to slightly above corresponding commodity loan rates, resulting in revenue-increasing, marketing loan benefits to farmers in the form of loan deficiency payments and marketing loan gains.

This report investigates the nature of market effects in the U.S. agricultural sector resulting from the commodity loan program with marketing loans. The analysis uses USDA's 2000 baseline and simulations of an econometric model for the U.S. agricultural sector (FAPSIM). Comparisons are made between a loan program scenario with marketing loans (representing current policy) and a scenario with no commodity loan program.

Commodity loan programs are one of the major domestic support programs in the United States. These programs have been in existence in various forms since the 1930's, primarily covering major field crops. Over the past 15 years, U.S. commodity loan programs for major field crops have added marketing loan provisions to existing nonrecourse loan provisions. As a result, loan programs have effectively moved from providing price support to providing income support without supporting market prices.

The level of realized, per-unit revenues facilitated by marketing loans is shown to exceed commodity loan rates when crop prices are relatively low. Many farmers use a two-step marketing procedure in which they receive program benefits when prices are seasonally low (and program benefits high) and then sell their crop later in the marketing year when prices have risen.

The historical above-loan-rate level of realized per-unit revenues facilitated by marketing loans provides a floor for farmers' expectations of per-unit revenues in subsequent years. This policy effect raises producers' expected net returns and is built into the acreage response functions used in the model simulations to depict the effects of commodity loan programs with marketing loans.

The commodity loan program with marketing loans can influence planting decisions and acreage allocation. Higher total acreage is planted to major field crops due to loan program benefits, raising aggregate production. This leads to generally higher levels of domestic use and exports and lower crop commodity prices as markets respond to the increase in supplies.

The commodity loan program with marketing loans can also induce farmers to shift acreage among competing crops. Acreage changes for individual crops reflect the effects of marketing loan benefits on absolute and relative net returns among

cropping alternatives, as well as acreage response elasticities. In some cases, these cross-commodity effects reduce acreage and production of crops receiving relatively low or no marketing loan benefits, lowering domestic use and exports of those crops while raising their prices.

Most impacts of marketing loans 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.