

Conclusions

The U.S. commodity loan program with marketing loan provisions provides countercyclical program benefits to farmers of major field crops through revenue-boosting loan deficiency payments and marketing loan gains when market prices are low. Marketing loans enable producers to realize a level of per-unit revenues that, on average, exceeds the commodity loan rate—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.

Marketing loans influence planting decisions and acreage allocation because program benefits are linked to farmers' current production, thereby affecting expected net returns for crops. Most effects for a marketing loan crop reflect an increase in its production and the resulting market response to the larger supply. That is, additional market impacts on domestic use, U.S. exports, and crop prices primarily reflect market adjustments to the increased production for the marketing loan crop, leading to a new equilibrium at a lower price and an increased quantity demanded.

Cross-commodity effects also are important, reflecting acreage shifts 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, 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 effects of marketing loans occur in the years when prices are low enough that marketing loan benefits exist. Only small dynamic, carryover effects occur in later years after prices rise sufficiently to eliminate marketing loan benefits. This result differs from that of price-supporting loan programs that existed prior to the introduction of marketing loans.

Simulations of an econometric model for the U.S. agricultural sector (FAPSIM) were used with the February 2000 USDA baseline to compare a commodity loan program scenario with marketing loans that represents current policy and a scenario with no commodity loan program. Overall, increased support to the sector increases total plantings of crops. Within this aggregate, results show that direct marketing loan benefits dominate in most years for most crops, with higher acreage, production, domestic use, and exports, and lower prices. However, for some crops in some years, cross-commodity effects dominate, causing declines in acreage, production, domestic use, and exports and increases in prices, as marketing loan benefits draw land to competing crops.

Magnitudes of the simulated impacts are dependent on the size of the marketing loan benefits included in the 2000 USDA baseline. Larger impacts would result for scenarios with lower prices and larger marketing loan benefits. Conversely, smaller effects would result with higher prices and smaller marketing loan benefits. Additionally, larger impacts would result if loan rates for corn, wheat, and soybeans in the USDA baseline were assumed to remain at their legislated maximums instead of being lowered from those levels to reflect 1996 Farm Act formulas for loan rate determination. Nonetheless, results shown in this report illustrate some of the key properties of how commodity loan programs with marketing loan provisions affect agricultural commodity markets.