AN OVERVIEW OF CORN, SOYBEAN AND WHEAT
PRICE AND INCOME SUPPORT PROGRAMS FOR 1987

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Policy Terms

Basic Loan Rate

- Set by Farm Bill for 1986 (soybean rate also set in Farm Bill for 1987–$5.02); can decline no more than 5%/year thereafter; eventually could be set by underlying formula of 75 – 85% (75% for soybeans) of 5 year moving average minus high and low price.

Deficiency Payment

- Income support to farmers based on the target price. (Specific calculations discussed on next page.) Payment can be made in cash, generic certificates, or in-kind (i.e., with commodities).

Findley Loan Rate

- Secretary of Agriculture's discretionary authority to reduce corn and wheat loan rates by up to 20% and soybean loan rate by up to 5% below basic loan rate for a year ($4.50 minimum for soybeans).

Generic Certificates

- Negotiable (i.e., can be sold) certificates issued for a specific dollar amount which can be redeemed for an equivalent amount of any commodity, except peanuts and tobacco, under nonrecourse loan or government ownership, or can be redeemed for cash after a specified date.

Marketing Loan Rate

- Secretary of Agriculture's discretionary authority to allow producers to repay nonrecourse loan at the world market price rate instead of the original loan rate. Minimum repayment rate of 70% of basic loan rate established for corn and wheat.

Nonrecourse Loan

- A loan from government (Commodity Credit Corporation) to farmer for nine months. Farmer uses grain as collateral and will generally default to government if market price stays below loan rate. Loan rate thus becomes market price support level.

Set-Aside

- Land may have to be taken out of production to qualify for deficiency payments and nonrecourse loans.

- May be paid or unpaid. Level of unpaid set asides depends on Secretary's discretion, but a maximum is set by Farm Bill based on level of stocks.
Target Price

- Determines income support through deficiency payments.
- Minimum levels established in Farm Bill for 1986 - 1990.
- None for soybeans.

World Market Price

- Price at which production plus privately-held stock balances with demand.
Income (Deficiency) Payments  
(Corn used as numeric example)

Deficiency Payment (Basic Loan Rate)
- Always occurs if market price is less than target price.
- Equals: target price minus higher of national average price received by farmers first five months of crop year for corn (first five months of crop year for wheat) or basic loan rate.
- Maximum for corn in 1986: $3.03 - 2.28 = $ .75 (If market price is greater than $2.28, deficiency payment is smaller).

Deficiency Payment (Findley Loan Rate)
- Occurs if, as in 1987, Secretary uses discretionary authority to reduce basic loan rate and market prices are below basic loan rate.
- Equals: basic loan rate minus higher of national average market price received by farmers during crop year for corn (first five months of crop year for wheat) or Findley Loan Rate.
- Maximum for corn in 1986: $2.28 - $1.82 = $ .46 (If market price is greater than $1.82, deficiency payment is smaller).

Maximum Total Deficiency Payment if Findley authority used: $3.03 - 1.82 = $1.21.

Marketing Loan Payment
- Can be implemented by Secretary of Agriculture through discretionary authority.
- Equals: basic loan rate minus world market price (with a 70% of basic loan rate limit for corn and wheat).
- Payment is not actually made for loans taken out. Producer pays loan back at world market price instead of original loan rate (subject to 70% limit).
- Payment may also be made to producers who forego taking out nonrecourse loans on eligible grain. Payment rate would be the same as the difference between basic loan rate and loan repayment rate.
- Maximum Marketing Loan Payment for corn in 1986: $2.28 - $1.60 = $ .68.
Corn - 1987

PRICE/BUSHEL

<table>
<thead>
<tr>
<th>Price</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.50</td>
<td>TARGET PRICE (MINIMUM)</td>
</tr>
<tr>
<td>$3.00</td>
<td>BASIC LOAN RATE</td>
</tr>
<tr>
<td>$2.50</td>
<td>FINDLEY LOAN RATE (MINIMUM)</td>
</tr>
<tr>
<td>$2.00</td>
<td>MARKETING LOAN RATE (MINIMUM)</td>
</tr>
<tr>
<td>$1.50</td>
<td>World Market Price with no minimum on Marketing Loan (Anybody's guess exactly what this level is)</td>
</tr>
<tr>
<td>$1.00</td>
<td></td>
</tr>
</tbody>
</table>

ANNOUNCED PROGRAM

- Target Price: $3.03
- Loan Rate (Findley used): $1.82
- Maximum Deficiency Payment: $1.21 (3.03 - 1.82)
- Land Set-Aside Required for Program Participation: 20% (unpaid)
- Paid Land Diversion: 15% (paid)

(Payment Rate is $2.00 per program bushel per paid set-aside acre)
PRICE/BUSHEL

$6.00

$5.50

$5.02  BASIC LOAN

$5.00  $4.77  FINDLEY LOAN RATE (MINIMUM)

$4.50  $4.25  World Market Price is marketing loan implemented (anybody's guess)

$4.00

$3.50

ANNOUNCED PROGRAM

Loan Rate (Findley used)  $4.77
Deficiency Payment  None
Set-Asides  None
Wheat - 1987

PRICE/BUSHEL

$4.50

$4.38 TARGET PRICE (MINIMUM)

$4.00

$3.50

$3.00

$2.85 BASIC LOAN RATE

$2.50

$2.28 FINDLEY LOAN RATE (MINIMUM)

$2.00

$2.10 World Market Price with no minimum on marketing loan (anybody's guess)

$2.00 MARKETING LOAN RATE (MINIMUM)

$1.50

ANNOUNCED PROGRAM

Target Price $4.38
Loan Rate (Findley used) $2.28
Maximum Deficiency Payment $2.10 ($4.38 - $2.28)
Land Set-Aside Required for Program Participation 27.5% (unpaid)