



Current Report

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The 1978 FEED GRAIN PROGRAM

Provided by the Food and Agriculture Act of 1977

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The 1977 Food and Agriculture Act explained in Current Report No. 144 provides for loans and purchase programs, deficiency payments, disaster programs and other agricultural programs. This report deals primarily with feed grain. Other current reports available at County Extension Offices deal with wheat (#145), cotton (#147), and peanuts (#148).

Basic requirements for participation in the program are:

1. Set aside an acreage equal to 10% of the acreage planted for harvest.
2. Participate in the program for all other setaside crops grown on the farm. Setaside crops are wheat, corn, milo, and barley. (Oats are excluded.)
3. Keep planted acreage plus setaside within the Normal Crop Acreage established for the farm. Other farms in which the producer has an interest as an operator or landowner must not exceed the NCA if a setaside crop is grown on the other farm(s).

In return for compliance, participating farmers are eligible for three major types of benefits:

1. CCC loans on all production and extended loan programs.
2. Deficiency payments on the acreage planted for harvest in 1978.
3. Disaster payments if planting is prevented or yields are drastically reduced by weather or other conditions beyond producer control.

Loan rates, target prices and setaside percentages are shown in Table I for feed grains, wheat, and cotton for comparison purposes.

Table I. Program Prices and participation rates

	Corn	Grain Sorghum	Barley	Wheat	Cotton
Loan rate	\$2.00/bu	\$1.90/bu	\$1.63/bu	\$2.25/bu	\$0.44/lb
Target price	2.10	2.28*	2.25*	3.00	.52
Setaside Requirement	10%	10%	10%	20%	none
Voluntary Reduction	5%	5%	20%	20%	20%

*Subject to slight adjustment when 1976-77 estimated cost-of-production becomes available.

The voluntary reduction is not required for participation in the program but is provided as an option to obtain assurance of payment on all of the acreage planted. In case the acreage harvested by all farmers is above the National Program Acreage for that crop, the Allocation Factor is applied.

Table II U.S. Grain Acreages

	Corn	Grain Sorghum	Barley	Wheat
Acreages (Mil. Ac.)				
Nat'l Pgrm Acreage '78 (Prelim)	67.6	13.7	7.4	58.7
Harvested - 1977	69.6	14.1	9.5	66.2
Average 1972-76	64.66	14.62	8.92	61.4

The only purpose of the National Program Acreage for each crop is to provide a basis for determination of the Allocation Factor. The statutory minimum for the allocation factor is .8 or 80%. The actual allocation factor for each crop will be determined after harvest by dividing the National Program Acreage by the acreage actually harvested. For example, if the harvested acreage of grain sorghum turns out to be the same as in 1977 (14.1 million acres) the allocation factor will be $13.7/14.1 = .972$ and farms which set aside 10% of their acreage planted but do not reduce acreage would receive deficiency payments on 97.2% of the acreage planted for harvest.

Computation of benefits:

Deficiency payments for feed grains on participating farms will be determined by multiplying the normal farm yield (regardless of the yield actually harvested) by the difference between the average price received by farmers in the first five months following harvest and the target price of \$2.10 or the difference between the loan rate and the target, whichever is smaller, times the number of acres planted for harvest.

Table III. 1973 Target and Loan Rates

	Corn	Sorghum	Barley	Wheat
Target price	\$2.10	2.28	2.25	3.00
Loan rate	2.00	1.90	1.63	2.25
Maximum Def. Pmt/bu.	.10	.38	.62	.75

Bushels paid for on disaster payments are deducted from the deficiency payment computation. The allocation factor is multiplied times the acres for harvest for farms which do not reduce from 1977 acreage by 5% for corn and milo and 20% for barley to arrive at acreage eligible for payment.

$$\text{Deficiency Payment} = \text{Acres for Harvest} \times \text{Allocation Factor} \times \text{Normal Farm Yield} \times \text{Target minus 5MoAvPr (Loan Rate)}$$

Disaster payments: If planting is prevented, the feed grain disaster payment is 1/3rd of the target price times 75% of the normal yield times the acreage intended to be planted for harvest. The low yield payment is made on the production shortfall below 60% of the normal yield for the farm times 50% of the target price.

$$\text{Disaster Payment} = \text{Acres for Harvest} \times \left(\frac{\text{Normal Farm Yield}}{\text{Actual Yield}} \times .6 \right) - \text{Actual Yield} \times .5 \times \text{Target Price}$$

TREATMENT AND USE OF SETASIDE. Removal of an acreage equal to ten percent of the acreage of feed grains for harvest from production is the major condition for participation and payments. There are no quality conditions placed on the setaside acreage, it does not need to be comparable to the land used for production, and may be the poorest land in the farm. It must, however, be land which was used for crops in at least one of the past three years. Setaside land must be protected from wind and water erosion, generally by a cover crop (which might be small grain which is not permitted to mature). Check with your ASCS for local exceptions. The setaside may not be harvested except in case of declared emergency periods, and may not be grazed during certain periods of the year specified for each county.

CROSS-COMPLIANCE. Non-compliance for any crop included in the 1978 program disqualifies a farm unit from participation in any phase of the 78 program, so the decision to participate for any crop requires participation for any other commodity included in the 78 program grown on the farm. Original rules requiring compliance on all farms for which the producer is an operator or an owner have been relaxed. The modified rule requires that all such farms cannot increase plantings of covered crops (plus setaside) above the Normal Crop Acreage.

THE BIG QUESTION, whether or not to participate; cannot be answered with certainty because of two unknowns-Prices and Yields. Prices for the 1978 crop will depend on weather and developing demand. Many outlook analysts anticipate large stocks and low prices, particularly if participation in the program is low, but short crops and surges in demand have seldom been accurately forecast. Participation guarantees some certain income from deficiency payments and crop sales (at the loan rate less storage costs) plus some additional disaster protection in exchange for the loss of 9.1% of feedgrain cropland to setaside.

TABLE IV. Illustration of Program Benefits.

Assumptions:	Corn	Sorghum	Barley
Normal Farm Yield	100	50	40
Ave. Price 5mo following harvest	\$2.00	1.90	1.63
Acres for Harvest in 1977	100	100	100
Minimum Setaside for 1978 (Using same acreage)	9.1	9.1	9.1
Maximum acreage to avoid allocation factor	95	95	80
A. Deficiency Payment (Yield above .6 x Normal FY.)			
Acres for Harvest	90.9	90.9	90.9
X Allocation factor ¹	1.0	1.0	.90
= Program Acreage	90.9	90.9	81.81
X Normal Farm Yield	100	50	40
= Farm Program Production bu.	9090.0	4545.0	3272.4
X Target Price - Loan Rate ² \$/bu.	.10	.38	.62
= Deficiency payment for this crop \$	909.0	1727.10	2028.89
B. 1 Disaster Payment if yields low (40% of NFY)			
Assumed yield bu.	40	20	16
60% of Normal Farm Yield bu.	60	30	24
Underproduction for payment bu.	20	10	8
X Acres for harvest	90.9	90.9	90.9
= Payment Quantity bu.	1818	909	727.2
X 50% of Target Price \$/bu.	1.05	1.14	1.125
= Farm Disaster Payment \$	1908.90	1036.26	808.10
B. 2 Deficiency Payment (following low yield)			
Acres for harvest ¹ Acres	90.9	90.9	90.9
X Allocation factor ¹	1.0	1.0	.90
= Acres Eligible Acres	90.9	90.9	81.81
X Normal Farm Yield Bu/Ac.	100	50	40
= Farm Program Production bu.	9090.0	4545	3272.4
- Bu. Paid on Disaster Payment bu.	1818.0	909	727.2
= Adjusted Program Production bu.	7272.0	3636	2545.2
X Target Price - Loan Rate ² \$/bu.	.10	.38	.62
= Farm Deficiency Pymt for this crop	727.20	1381.68	1578.02
Disaster payment + Deficiency Pymt \$	2636.10	2417.94	2386.12

Footnotes

¹Allocation factor does not apply in this case to corn or milo because acreage for harvest in 1978 is reduced by more than 5% from 1977 acreage for harvest, but this barley example does not reduce acreage by the 20% required for barley to avoid the allocation factor, if acreage harvested nationally is larger than the National Program Acreage.

²If the average price received by farmers for the five months following harvest is above the loan rate, this value would (Target Price - 5MoAvePrice).

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