AGRICULTURAL PRICE SUPPORT PROGRAMS: A HANDBOOK

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PREFACE

This handbook describes the various methods used to support and stabilize farm prices and incomes, and highlights some key provisions of current commodity legislation. The report, which was requested by the House Committee on Agriculture, is intended as a general guide to understanding the operation of agricultural programs. In keeping with the Congressional Budget Office's mandate to provide nonpartisan and objective analysis, the handbook makes no recommendations.

This report was prepared in CBO's Natural Resources and Commerce Division by James G. Vertrees and Peter M. Emerson under the direction of Raymond C. Scheppach. It updates a CBO study published in April 1976. The manuscript was edited by Francis Pierce and typed for publication by Angela Z. Evans and Deborah Vogt.

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CHAPTER I. INTRODUCTION

Over the decades since the early 1930s, the Congress has established a number of programs intended to soften the impact of economic forces upon farmers. These programs are commonly and interchangeably referred to as agricultural price support programs, commodity programs, or farm programs. Today they include programs for wheat, feed grains (corn, grain sorghum, barley, and oats), cotton, rice, soybeans, peanuts, tobacco, wool, milk, sugar (in the 1979 marketing year), and a few other commodities. The crops covered by commodity programs account for about two-thirds of the value of all crops produced.

Until the early 1960s, federal intervention generally was directed at stabilizing farm incomes through price supports and controls over production and marketing. One effect of price supports was to increase farm output beyond the requirements of the market, with the result that the Commodity Credit Corporation (CCC)—a government-owned corporation directed by the Secretary of Agriculture and other USDA officials--acquired large stocks of many commodities in the effort to support market prices. This led to a change in policy by the Congress that emphasized direct payments to some farmers to support farm incomes, and sought to avoid the need to acquire large stocks by encouraging farmers to limit the acreage planted to crops found to be in excess supply. For grains and upland cotton, the relatively high price supports were lowered to encourage exports, as well as to reduce the acquisition of commodities by the CCC. In the 1970s the new policy was continued, with changes in the methods of direct payment and greater leeway for production decisions by farmers. The new policy has been applied mainly to grains and upland cotton; the commodity programs for tobacco, milk, and wool have changed little since their inception.

The commodity programs are administered by the U.S. Department of Agriculture (USDA). Most of them are the responsibility of the USDA's Agriculture and Stabilization Service and are financed through the Commodity Credit Corporation. Federal marketing agreements and orders are administered by the USDA's Agricultural Marketing Service.

Chapter II of this handbook describes the methods used to support and stabilize farm prices and incomes: price supports, direct payments, supply controls, and marketing agreements and orders. Chapter III treats specific price-support programs for major commodities.

CHAPTER II. METHODS USED TO SUPPORT AND STABILIZE FARM PRICES AND INCOMES

Farm programs attempt to support and stabilize farm prices and the incomes of farmers by means of a variety of measures, including price supports, direct payments to farmers, supply controls, and marketing agreements.

- Price supports are used to maintain the prices of agricultural commodities at levels approved by the Congress. The Department of Agriculture may support prices indirectly through loans to farmers or by purchasing commodities in the market.

- Direct payments are made to producers of some commodities when market prices fall below certain levels or when natural conditions lead to bad harvests. Direct payments are also used for other purposes, such as encouraging farmers to reduce the acreage planted to certain crops.

- Supply controls include various measures to limit the supply of farm products and avoid excessive stocks.

- Marketing agreements and orders are used for milk, fruits, vegetables, and certain other commodities as a means of regulating the terms under which the commodities are sold.

Price Supports

Price supports are intended to keep farm incomes from falling precipitously when production gluts or unexpected reductions in demand result in very low prices. Prices are supported in two principal ways: by nonrecourse loans and by government purchases of commodities.

Nonrecourse Loans. Before every planting season, the Secretary of Agriculture announces the loan level for each commodity having such a program. If farmers find that market prices are low after harvest, of if they simply need working cash, they can put their crops in storage and use them as collateral for loans from the CCC. These are called nonrecourse loans because the CCC agrees to accept the commodity as full satisfaction for repayment of the loan if the farmer chooses not to repay in cash. A farmer may, however, decide to repay the loan with interest on or before its maturity date, and take over the storage and marketing of the commodity himself. In this way farmers are guaranteed cash for their crops at a minimum price (the loan rate) without losing the opportunity to gain from any future price rise. Nonrecourse loans are made for wheat, feed grains, cotton, soybeans, rice, peanuts, tobacco, sugar, and a few other minor commodities.

Farmers—or their cooperative marketing associations—obtain nonrecourse loans usually for terms of 9 to 12 months. They are required to comply with the provisions of their commodity programs, such as cropland set-aside requirements, acreage allotments, and marketing quotas (described below in the section on supply controls). The amount of a loan is determined by the quantity of the commodity placed in approved storage facilities multiplied by the support price of the commodity, or loan rate. Recent loan rates and target prices (see page 6) are given in Table 1.

Loan rates may be specified by the Congress in authorizing legislation for a given commodity program, as, for example, in rice or tobacco, or set by the Secretary of Agriculture in accordance with guidelines established by the Congress, as in wheat and corn. 1/ The setting of loan rates for major commodities is discussed in greater detail in Chapter III.

Commodity Purchases. The government may also support prices by purchasing commodities in the market. The Secretary of Agriculture is required to support the price of milk by purchasing manufactured dairy products. Most of the other commodity programs give the government the option, in addition to nonrecourse loans, of making direct purchases to keep market prices from falling below the support price.

The government has several ways of disposing of the stocks of commodities it acquires through its price support programs. The CCC may sell them to domestic and foreign buyers at prices somewhat higher than the purchase prices. It may sell them at lower prices for restricted use or as

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1/ If the President suspends commercial export sales based on a determination of short supply while a loan program is in effect, loan rates for several commodities must be set at 90 percent of parity (see footnote 8).

TABLE 1. LOAN RATES AND TARGET PRICES FOR MAJOR COMMODITIES, 1979 AND 1980 (In dollars per unit)

Commodity	Unit	Loan Rate a/ 1979	Loan Rate a/ 1980	Target Price b/ 1979	Target Price b/ 1980
Corn	Bu	2.00	2.10	2.20	2.35
Grain Sorghum	Bu	1.90	2.00	2.34	2.50
Barley	Bu	1.63	1.71	2.40	2.55
Wheat	Bu	2.35	2.50	3.40	3.63
Upland Cotton	Lb	0.502	0.480	0.577	0.584
Soybeans	Bu	4.50	4.50	NA	NA
Rice	Cwt	6.79	7.12	9.05	9.49
Peanuts c/	Lb	0.2100	0.2275	NA	NA
Flue-Cured Tobacco	Lb	1.293	1.415	NA	NA
Burley Tobacco	Lb	1.333	1.460	NA	NA

NA = Not applicable.

SOURCE: U. S. Department of Agriculture.

a/ The price at which nonrecourse loans are transacted.

b/ The price used in calculating deficiency payments to farmers.

c/ Peanuts produced within marketing quotas—see Chapter III.

damaged or off-grade products, either to domestic bidders or to foreign governments. It may also donate them to domestic or foreign feeding programs.

Direct Payments

In addition to loans and commodity purchases, the government also makes several types of direct payments to farmers. These are designed to supplement their incomes in low price years, induce them to participate in programs to control supply, and help them when natural disasters occur.

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Deficiency Payments. When market prices are low, farmers participating in certain programs receive the difference between a target price and the average market price for their crops. Deficiency payments originated in the Agriculture and Consumer Protection Act of 1973, which established a new support mechanism for wheat, feed grains, and upland cotton. The Rice Production Act of 1975 adopted the same mechanism for rice. Under these laws, participating farmers are provided two forms of price protection for their crops: "deficiency payments" and the nonrecourse loans discussed above. If the national average market price for a crop for a specified period falls below the target price, producers of that crop become eligible for a deficiency payment. 2/ The payment rate is the difference between the target price and the average market price, or between the target price and the loan rate for nonrecourse loans, whichever is smaller. The deficiency payment received by an individual farmer is calculated by multiplying the payment rate by the normal production expected from the farm's acreage allotment or program acreage (see the section on supply controls, below).

In order to receive deficiency payments, farmers must comply with cropland set-aside requirements intended to control the supply of farm products. Farmers are limited in the amounts they may receive. In 1979, the maximum payment per farm was $45,000 for wheat, feed grains, and upland cotton, and $50,000 for rice. In 1980 and 1981, the maximum is $50,000 for all crops. These payment limitations do not apply to nonrecourse loans, disaster payments (see below), and certain other government payments.

Supplementary Payments. A form of payment similar to deficiency payments is made to producers of wool, mohair, and extra-long staple (ELS) cotton. 3/ Wool and mohair producers may receive payments equal to the percentage difference between the support price and the national average

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2/ The "specified period" is the first five months of the marketing year for wheat, feed grains, and rice, and the calendar year for upland cotton. The marketing year is the 12-month period beginning at the time of harvest (see Table 2). Target prices are adjusted annually for changes in a national two-year moving average cost of production, excluding management and land costs.

3/ Two major types of cotton are grown in the United States—upland and extra-long staple. Upland cotton is the more important, accounting for over 99 percent of total U.S. cotton production in recent years.

market price times their annual revenue from the sale of wool and mohair. They are not eligible for nonrecourse loans. ELS cotton farmers can also receive supplementary payments if they comply with acreage allotments and marketing quotas; in addition, they are eligible for nonrecourse loans.

Diversion Payments. Farmers who agree to reduce the acreage under certain crops are eligible for diversion payments. In 1979, for example, corn farmers who participated in the cropland set-aside program and agreed to divert acreage equal to 10 percent of their acreage under corn received diversion payments of $0.10 per bushel on normal production from their planted acreage (provided it did not exceed the acreage of the previous year). Diversion payments were also made to producers of barley and grain sorghum.

Disaster Payments. Farm incomes are affected not only by market forces but by natural hazards as well. If poor weather prevents planting or causes a bad harvest, a farmer may be eligible for disaster payments. These are made to producers of wheat, feed grains, upland cotton, and rice. The amounts are governed by the size of the production shortfall, the total acreage planted, and the level of target prices. Combined disaster payments under all programs are limited to $100,000 per person. A farmer may receive both disaster payments and deficiency payments, but not on the same portion of his total crop. The federal government also provides all-risk crop insurance, emergency disaster loans, and other types of assistance to producers of certain commodities subject to natural hazards.

Supply Controls

The government uses several tools to influence the supply of farm products, including acreage allotments, marketing quotas, cropland set-asides, acreage diversion, and farmer-owned grain reserves. These programs help keep the supply of farm products at a level that is considered adequate to maintain farm incomes and ample supplies of food and fiber and that will hold down the cost to the federal government of nonrecourse loans and direct payments.

Acreage Allotments. Each year before planting time, the Department of Agriculture estimates the quantities of certain commodities needed to satisfy expected consumption and export requirements, as well as any increase or decrease in stocks that is desired. These quantities are converted into national acreage allotments and then apportioned among states, counties, and farms on the basis of past production and other factors.

Acreage allotments are now used for rice, peanuts, ELS cotton, and most types of tobacco. For the 1978 to 1981 marketing years (Table 2),

TABLE 2. MARKETING YEARS FOR MAJOR COMMODITIES

Commodity	Marketing Year Begins	Marketing Year Ends
Corn	October 1	September 30
Grain Sorghum	October 1	September 30
Barley	June 1	May 31
Oats	June 1	May 31
Wheat	June 1	May 31
Cotton	August 1	July 31
Soybeans	September 1	August 31
Rice	August 1	July 31
Peanuts	August 1	July 31
Flue-Cured Tobacco	July 1	June 30
Burley Tobacco	October 1	September 30
Milk	October 1	September 30

SOURCE: U.S. Department of Agriculture.

acreage allotments for wheat, upland cotton, and feed grains have been replaced by national program acreages, which are the acreages considered necessary to satisfy domestic and export demand.

If a farmer chooses to exceed his acreage allotment, and a marketing quota (see below) is not in effect, he may lose eligibility to receive nonrecourse loans, direct payments, and other program benefits; or he may receive program benefits only on crop production from his allotment acreage. If a farmer chooses to exceed his acreage allotment and a marketing quota is in effect, financial penalties may be imposed on excess production.

Marketing Quotas. Marketing quotas, which are used in combination with acreage allotments, limit the marketing of certain commodities by imposing penalties on excess production. At present, marketing quotas are in effect for ELS cotton, peanuts, and most types of tobacco. Marketing quotas for wheat, rice, and upland cotton have been suspended for the 1978 to 1981 marketing years.

Quotas are proclaimed by the Secretary of Agriculture, but they go into effect only if approved by two-thirds of the producers voting in a national referendum. If a quota is ratified, noncomplying producers may be required to pay a penalty on any excess production, forfeit eligibility for nonrecourse loans and payments, and/or face reductions in future marketing quotas. In some cases, producers who do not market their full quota in one year can add the shortfall to the next year's quota without penalty.

Cropland Set-Asides. If the USDA forecasts that supplies of wheat, feed grains, upland cotton, or rice will be excessively high relative to the demands of the market (resulting in carryover stocks larger than needed to maintain stable prices), a set-aside program can be put into effect. Under these conditions, participating farmers must withdraw cropland equal to a specified proportion of their planted acreage from production. The term "set-aside" is used to describe the acreage withdrawn from crop production and devoted to approved conservation practices.

As a basis for determining set-aside compliance, each farm has a normal crop acreage that reflects the total farm acreage planted to designated crops in recent years. If a farmer participates in a set-aside program, his total planted acreage plus set-aside acreage cannot exceed his normal crop acreage. For example, if the Secretary of Agriculture announces a 10 percent wheat set-aside, a participating wheat farmer must set aside acreage equal to 10 percent of his acreage planted to wheat. If the farmer's normal crop acreage is 1,100 acres, he can plant 1,000 acres of wheat and set aside 100 acres.

Wheat and feed grain farmers who comply with the set-aside requirements are eligible for nonrecourse loans on all their production and for direct payments on at least 80 percent of their planted acreage at assigned program yields. There is, however, no minimum percentage of acreage on which upland cotton farmers must receive payments, and rice farmers receive payments only on the acreage allotment. If the Secretary announces a voluntary percentage reduction in acreage from the previous year, farmers who comply are eligible to receive direct payments on 100 percent of normal production providing they meet any set-aside requirement.

Acreage Diversion. Another tool used to control crop production is voluntary acreage diversion. To induce participation the Secretary of Agriculture can make payments to farmers who divert cropland to conservation uses, regardless of whether a set-aside program is in effect. Compensation may be based on bids submitted by farmers or other methods. The Secretary is required to administer the acreage diversion program so as not to affect local economies adversely.

Farmer-Owned Grain Reserves. Wheat and feed grain farmers may participate in a government-financed grain reserve (or storage) program. The movement of grain into and out of the reserve program is intended to buffer sharp price movements and contribute to a more dependable supply of grain.

Farmers who participate in the grain reserve program agree to an extension of their original nonrecourse loans for three to five years. In return, they receive annual storage payments from the government, and interest may be waived. Grain placed in the reserve program can be stored either on the farm or in commercial warehouses. USDA loans are available to farmers for the construction of storage facilities whether or not they participate in the grain reserve program.

Upon entering the grain reserve program, the farmer agrees not to sell his grain until national average farm prices reach a so-called "release level" (now $2.63 per bushel for corn and $3.75 per bushel for wheat). Once the release level is achieved, the farmer may repay his nonrecourse loan plus one year's interest and sell the grain without penalty. 4/ At somewhat higher "call levels" (now $3.05 per bushel for corn and $4.63 per bushel for wheat), the farmer must repay his nonrecourse loan plus interest or forfeit the grain to the government. Minimum and maximum release levels and minimum call levels are specified by law for wheat as a proportion of the loan rate, but the Secretary of Agriculture has discretion in setting the levels for feed grains.

Marketing Agreements and Orders

For a number of other commodities, the federal government provides support through marketing agreements and orders. Producers of milk, fruits, vegetables, nuts, and specialty crops may choose to participate in these programs, which must be approved through farmer referendums. The programs are administered by the Department of Agriculture's Agricultural Marketing Service.

4/ Farmers who decide to sell grain in reserve when the market price is below the "release level" must repay their loans plus interest and storage payments but not less than 125 percent of the current loan rate for corn (140 percent of the current loan rate for wheat) multiplied by the quantity of grain redeemed. Loan rates are described in the section on price supports.

Most fluid-grade milk produced in the United States is covered by federal milk marketing orders, which fix minimum prices that handlers must pay (see Chapter III). Fruits, vegetables, nuts, and specialty crops are covered by a wide variety of regulations. They concern such matters as quantity, quality, and rate of shipment to market—dealing with the problems of low and unstable prices indirectly rather than through price supports or acreage controls.

Others

Other methods are also used to support and stabilize farm prices and incomes. For example, exports are encouraged through government loans to importers at commercial rates. The Agricultural Development and Trade Assistance Act of 1954 (P.L. 480), as amended, authorizes low-interest, long-term loans and commodity donations to developing countries. In 1979, the Congress approved a series of agreements from the Tokyo Round of Multilateral Trade Negotiations that were expected to increase U.S. agricultural exports; they provided for reduced tariffs and quotas, and set forth new rules for negotiating nontariff barriers. The Secretary of Agriculture also has permanent authority to make payments to exporters to promote the sale of U.S. commodities. Export payments were last used in 1972. The Secretary also has authority to implement a variety of special programs to assist farmers. For example, payments were made in 1979 to potato growers in certain states to divert potatoes harvested in 1978 to animal feed and other uses, in order to improve market prices.

CHAPTER III. PRICE SUPPORT PROGRAMS FOR MAJOR COMMODITIES

In fiscal year 1979, the total direct cost to the government of price support programs was $3,336 million. Expenditures were highest in the programs for feed grains, wheat, cotton, and dairy products. Table 3 shows how the costs were distributed among the major programs.

Following is a discussion of the key provisions of major commodity programs. 5/

Feed Grains, Wheat, and Upland Cotton

Feed grain, wheat, and upland cotton farmers may avail themselves of nonrecourse loans, deficiency payments, cropland set-asides, acreage diversion payments, and disaster payments. Compliance with the provisions of supply control programs is a condition of eligibility for nonrecourse loans, deficiency payments, and other program benefits. The Secretary of Agriculture is required to grant nonrecourse loans for four feed grains (corn, sorghum, barley, rye, and oats), but has discretion in making deficiency payments and disaster payments on barley and oats (oats are currently excluded).

The USDA establishes annually for each crop a national program acreage—the amount of acreage that is considered necessary to satisfy domestic and export demand. The ratio of national program acreage to acreage harvested is called the program allocation factor. It denotes the proportion of total planted acreage that is eligible for deficiency payments. 6/ A farmer must show that he has complied with set-aside

5/ Current programs are authorized by the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation Charter Act, the Agricultural Act of 1949, the National Wool Act of 1954, the Agricultural Act of 1970, the Agriculture and Consumer Protection Act of 1973, the Food and Agriculture Act of 1977, the Emergency Agricultural Act of 1978, and the Agricultural Adjustment Act of 1980.

6/ For feed grains and wheat the program allocation factor cannot fall below 0.8 or exceed 1.0; for upland cotton the program allocation factor cannot exceed 1.0.

TABLE 3. COST TO THE FEDERAL BUDGET OF MAJOR COMMODITY PROGRAMS, FISCAL YEARS 1977-1979 (In millions of dollars)

Commodity or Item	1977	1978	1979
Feed Grains	234	765	1,185
Wheat	140	1,195	820
Upland Cotton	95	85	217
Soybeans	(a)	(a)	(a)
Rice	146	3	73
Peanuts	103	71	30
Tobacco	(a)	(1)	5
Dairy Products	29	193	205
Wool and Mohair	7	29	36
Sugar	2 b/	212	3
Other Commodities	3	19	34
Other Costs and Losses	72	515	728
Total	831	3,085	3,336

SOURCE: U.S. Department of Agriculture, Commodity Credit Corporation Reports of Financial Condition and Operations (September 30, 1977, 1978, and 1979). U.S. Department of Agriculture, Financial Management Division, Agricultural Stabilization and Conservation Service.

NOTE: Figures represent loss (gain) on price support and related programs, rounded to the nearest million dollars.

a/ Less than $0.5 million.

b/ Payments under the Sugar Act, which expired in 1974.

provisions and any voluntary reduction undertaken in planted acreage from the previous year to receive deficiency payments on all plantings. And cross compliance is usually required: a farmer must comply with set-aside provisions for all crops in his normal crop acreage in order to be eligible for nonrecourse loans, deficiency payments, and disaster payments on any crop he grows.

Loan rates and target prices are given in Table 1. For wheat and corn, minimum loan rates for the 1978-1981 crops are specified in the Food and Agriculture Act of 1977, and the Secretary of Agriculture has discretion to lower loan rates under certain conditions. The maximum loan rate for wheat is 100 percent of its parity price. 7/ No maximum is specified for corn. Loan rates for barley, grain sorghum, and oats are set on the basis of their livestock feeding values relative to corn. The Secretary of Agriculture sets the upland cotton loan rate based on an average of past U.S. spot prices of upland cotton or on current upland cotton prices in foreign markets. But the loan rate must not be less than the minimum rate ($0.48 per pound) fixed by the Emergency Agricultural Act of 1978.

Target prices for 1978 crops were specified in the Food and Agriculture Act of 1977. The act requires that target prices for the 1979-1981 crops be adjusted annually for changes in the national average cost of production. The Emergency Agricultural Act of 1978 gives the Secretary authority to increase target prices if a set-aside program is in effect. And, the Agricultural Adjustment Act of 1980 established minimum target prices for wheat and corn for the 1980 and 1981 crops.

Extra-Long Staple Cotton

The price of ELS cotton is supported through nonrecourse loans, acreage allotments, marketing quotas, and supplementary payments. Marketing quotas must be proposed each year and voted on by farmers. A national acreage allotment is based on the estimated number of acres required to produce an amount of ELS cotton equal to the marketing quota.

If a marketing quota is approved, and it usually is, the loan rate for ELS cotton can be set 50 to 100 percent above the loan rate for upland cotton, and supplementary payments may be made. The loan rate and supplementary payments are used to bring the effective level of support to 65 to 90 percent of the parity price of ELS cotton.

7/ The parity price of a commodity is the price (in current dollars) that gives the commodity the same purchasing power per unit in terms of goods and services bought by farmers as prevailed in the 1910-1914 base period.

Soybeans

Under the 1977 act, the Secretary of Agriculture is required to operate a nonrecourse loan program for the 1978-1981 soybean crops but the level of the loan rate is at his discretion. Corn and soybeans compete for crop acreage in some areas. Therefore, the loan rate for corn is taken into consideration when setting the loan rate for soybeans.

Neither target prices nor cropland set-aside programs are authorized for soybeans. Also, farmers do not receive disaster payments for losses in soybean production.

Rice

The 1977 Food and Agriculture Act authorizes nonrecourse loans, deficiency payments, cropland set-aside programs, acreage diversion, and disaster payments for rice farmers. These programs, however, are available only to rice farmers who had acreage allotments before 1976. If a farmer holding a rice acreage allotment plants any other crop for which a set-aside program is in effect, he must comply with the set-aside requirement to be eligible for rice program benefits.

Rice marketing quotas and penalties were suspended in 1978-1981. Farmers with acreage allotments can produce rice on additional acreage, but this production is not eligible for nonrecourse loans or deficiency payments. A farmer without an acreage allotment cannot participate in the rice program.

The 1978 target price and loan rate for rice were specified by the 1977 act (see Table 1). Target prices for 1979-1981 will be adjusted for changes in U.S. average production costs (as for wheat, feed grains, and upland cotton). The loan rate is increased annually in the same proportion as the target price, but the Secretary of Agriculture has some discretion to lower the loan rate to avoid domestic surpluses.

Peanuts

The farm program for peanut growers involves nonrecourse loans, acreage allotments, and marketing quotas. The 1977 act reduced the loan rate so as to bring the support price for the 1978-1981 peanut crops into closer alignment with actual market conditions.

Under the new program, minimum national acreage allotments and poundage quotas are allocated among farms, creating a two-price system. For production within a farm's poundage quota the 1980 loan rate is $0.2275 per pound. Peanuts in excess of a farm's poundage quota, but not in excess of its acreage allotment, are eligible for nonrecourse loans at a lower level ($0.125 per pound in 1980) based on the demand for peanut oil and peanut meal, expected prices of other vegetable oils and protein meals, and the demand for peanuts in foreign markets.

Marketing quotas have been approved by growers for the 1978-1980 peanut crops.

Tobacco

For program purposes, tobacco is divided into three types. Flue-cured and burley tobaccos account for about 90 percent of tobacco production. A third category includes dark air-cured, fire-cured, Puerto Rican, sun-cured, and cigar tobaccos. Tobacco prices are supported through the use of marketing quotas in combination with nonrecourse loans made to farmers through their marketing associations. Over the years, the production and marketing control provisions of the tobacco program have restricted supply relative to demand to the extent that market prices have remained slightly above loan rates.

The production and marketing of flue-cured tobacco is controlled through acreage allotments and marketing quotas. First, a national poundage requirement is determined and apportioned among the states. Then the state quota (expressed in pounds) is converted to acreage and assigned to individual farms in acres and pounds. For the 1979 crop, farmers could contract with the USDA, undertaking not to harvest the bottom four leaves (for which demand has declined), and could then plant up to 110 percent of their acreage allotment. Otherwise, farmers who wished to participate in the tobacco program could not exceed their allotment. Any marketings that exceed a farm's poundage quota are deducted from the quota in the following year; those that fall short of the quota are added to the next year's quota.

Only marketing quotas are used for burley tobacco, while both acreage allotments and marketing quotas are used for most of the tobaccos falling in the third category above.

Loan rates are established for each type of tobacco (see Table 2). The current loan rate is determined by adjusting the 1959 loan rate according to changes in the index of prices paid by farmers (also called the "parity index"). For example, the 1980 loan rate is calculated by multiplying the 1959 loan rate by the ratio of the average index of prices paid in 1977, 1978, and 1979 to the index of prices paid in 1959.

Wool and Mohair

The National Wool Act of 1954 and the Food and Agriculture Act of 1977 provide for formula-determined support prices for wool and mohair, and for supplemental payments to producers. The current support price of wool is 85 percent of the 1965 support price adjusted for changes in the index of prices paid by farmers. The support price of mohair is tied to the support price of wool.

In April, the USDA calculates the average market prices of wool and mohair received in the previous marketing year. If the average market price is below the support price, supplemental payments are made. The difference between the average market price and the support price is expressed as a percentage of the support price. Each producer's supplemental payment is calculated by multiplying his proceeds from the sale of wool or mohair by the percentage differential. Producers who receive higher-than-average (lower-than-average) market prices obtain market receipts and supplemental payments greater than (less than) the support price multiplied by the quantity sold. This method of calculating supplemental payments encourages producers to improve the quality of their wool and mohair, since the supplemental payments depend upon the price received for wool and mohair.

Milk

The federal government influences the price of milk and the incomes of dairy farmers through the dairy price support program and the federal milk market order program.

The dairy price support program, created by the Agricultural Act of 1949, requires the Secretary of Agriculture to fix a nationwide support price for milk between 75 and 90 percent of parity. The support price is announced at the beginning of the marketing year (October 1) and is adjusted six months later according to changes in the index of prices paid by farmers. The support price for milk with average milkfat content was set at $11.49 per hundredweight on October 1, 1979 and was adjusted to $12.36 per hundredweight on April 1, 1980. The government purchases cheese, nonfat dry milk, and butter from processors to keep the market prices of milk from falling below the support price. Thus the dairy price support program places a floor under the level of milk prices received by all dairy farmers.

About 80 percent of all fluid-grade milk (milk eligible for use in fluid consumption) is priced through 47 federal milk marketing orders. A federal milk marketing order is a legal instrument used to regulate the terms under which milk processors in a specified geographic area must purchase fluid-grade milk from farmers. Classified pricing, by which fluid-grade milk is priced differentially according to how it is used, is an integral part of federal marketing orders. In each federal milk marketing order, the minimum price of milk used in fluid consumption is set at a higher level than milk used in manufactured dairy products. The minimum price of milk used in manufactured dairy products is set equal to, or slightly above, the Minnesota-Wisconsin price of manufacturing-grade milk. Since Minnesota and Wisconsin represent a major surplus producing region, federal order pricing is closely related to the support price of milk--the price at which the government purchases surplus production.

Sugar

The Secretary of Agriculture announced a nonrecourse loan program for 1979 sugarcane and sugarbeet crops under the Agricultural Act of 1949. Nonrecourse loans are made to processors of refined beet sugar ($0.1515 per pound) and raw cane sugar ($0.13 per pound), provided they pay farmers the minimum price established in each sugarbeet or sugarcane processing region. The domestic sugar industry is protected by duties, fees, and quotas on imports of raw and refined sugar.