THE PAYMENT-IN-KIND (PIK) PROGRAM

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ISSUE DEFINITION

Despite Federal efforts last year to curb production and dispose of surpluses, record production and continued high carryover stock levels for most commodities have depressed farm prices and significantly increased expected Federal outlays for agricultural price support programs. In an attempt to bring supply in line with demand, President Reagan announced on January 11, 1983, that the U.S. Department of Agriculture (USDA) would implement a payment-in-kind (PIK) program for the 1983 wheat, rice, corn, sorghum, and upland cotton crops. Recently, USDA announced a PIK program for the 1984 wheat crop.

Under PIK, government payments in the form of Commodity Credit Corporation (CCC)-owned commodities are given to farmers in return for additional reductions in harvested acreage. At the time of implementation, the PIK program created a number of issues. Particular concerns included the potential short-term price impact of PIK, the more immediate problem of ironing out certain technical details, such as the taxing procedure, and the longer-term policy implications of initiating and maintaining such a massive supply control and acreage reduction program. Concern has been expressed over the eventual cost of the program and the impact it will have on retail food prices in 1984. In addition, heavy participation in PIK left the government short of stocks needed for payments, and the methods used for acquiring and distributing PIK commodities has prompted criticism from farmers and legislators alike. Furthermore, the program has come under increasing criticism because of the large payments that have been made to larger farmers. Some farmers are reported to have received payments valued in excess of $1 million. A recent legal interpretation by GAO concluded that payments in excess of $50,000 were a violation of Federal law.

BACKGROUND AND POLICY ANALYSIS

Supply and Demand Conditions Leading to PIK

In 1981, U.S. farmers produced record levels of wheat, corn and soybeans. However, both domestic and foreign demand for these commodities weakened over the marketing year, causing U.S. stocks for grains and cotton to swell. In an effort to reduce supplies, the USDA implemented acreage reduction programs for grains and cotton in 1982. Despite these efforts, U.S. farmers harvested even larger crops of wheat, corn, and soybeans in 1982 than in 1981. The record production, plus a large carryover, dramatically increased stock levels of nearly all major commodities. USDA estimates that at the end of the 1982/83 marketing year, the United States holds approximately 73% of the world's coarse grain stocks, 43% of its wheat stocks, 28% of global cotton stocks, and 65% of world soybean stocks.

Demand for agricultural commodities has remained weak, with reduced domestic usage and declining export levels. For the first time since 1969, the value of U.S. farm exports has declined -- from $43.7 billion in 1981 to $39.1 billion in 1982 -- with a further drop to $34.5 billion in 1983.

Large stock levels in the face of continuing weak demand depressed commodity prices and lowered farm income. Net farm income fell to only $22.1

billion in 1982, compared to $30.1 billion in 1981.

Low commodity prices and growing surpluses also boosted Federal outlays under the commodity price support programs. Outlays reached a record level of $11.7 billion in FY82 and will soar this year to an estimated 18.9 billion, according to USDA. This is about $3 billion less than was estimated at mid-year because more commodity loans are being repaid as market prices for some commodities rise. In this atmosphere of declining demand, eroding farm income, and rapidly escalating farm program costs, the Reagan Administration announced its PIK plan to cut production, stocks, and Government costs, while halting the decline in farmers' income.

PIK: THE PROGRAM

In addition to the acreage reduction and paid land diversion announced last summer, the USDA announced in January 1983 that a payment-in-kind (PIK) program would be implemented for the 1983 crops of wheat, corn, grain sorghum, cotton and and rice. A similar program to reduce excess supplies and the Government's cost of storing surpluses was used for cotton in the 1930s, and for feed grains and cotton in the 1960s. Under the new PIK, the USDA uses existing grain and cotton stocks to pay farmers to reduce their production further in 1983. Farmers who take land out of production, in addition to acreage not planted to crops under the voluntary and paid diversion programs, receive a certain amount of the commodity they would have otherwise produced. Farmers are free to use PIK commodities as they wish: they may store or sell them or, in the case of grains, use them as feed. Commodities received as payment-in-kind, however, are not eligible for entry into the Federal commodity loan or reserve programs (an exception to this policy was made for certain Texas rice producers -- it is discussed under the section entitled "Shortfalls in CCC Stocks Needed to Meet PIK Commitments").

PIK payments come from CCC-owned stocks, the farmer-owned reserve, from crops under regular loans, or from farmers' 1983 crop. Participating farmers with outstanding regular or reserve loans are forgiven the principal and interest due and retain their own commodity as payment under PIK. Early maturing loans are extended when the purpose is for use as PIK payment. Any outstanding loan amount in excess of the PIK payment must be forfeited or redeemed at maturity. Participating farmers with no outstanding loans receive letters of entitlement to CCC stocks at approved warehouses, or, in the case of wheat and cotton, must harvest a portion of their 1983 crop for PIK.

Producers of 1983 crops had several options to consider in making their planting and harvesting decisions. They could elect not to participate in any acreage reduction program, thereby foregoing any direct price support program benefits. They could limit participation to the unpaid acreage reduction/paid diversion programs. Or, they could participate in the regular programs plus PIK. Producers also had several options under PIK. One option allowed farmers to reduce their acreage by 10-30% above the previously announced acreage reduction program levels of 20% for food and feed grains, and 25% for cotton. For the grains, this means that a total of 30% to 50% of the "farm base" could be withdrawn from production. For cotton, a total of 35% to 55% of the farm base could be withdrawn.

Each farm's PIK payment is determined by multiplying the acreage withdrawn under PIK by the "payment rate". Payment rates are set at 95% of normal farm program yield for wheat, and 80% for all other commodities.

Under a second PIK option, known as the "whole farm option," farmers could withdraw their entire base acreage.

However, producers were not automatically entitled to the whole farm option: it was only available on a "bid basis." To take their entire base acreage out of production, farmers had to bid the payment rate they would accept in return for diverting all their acreage. This option is commonly referred to as "the whole base bid."

Participating farmers who chose the 10-30% PIK must comply first with the full unpaid and paid acreage reductions. Under this option, farmers do not receive any compensation on the acreage that is considered voluntary reduction. A farmer whose whole base bid was accepted is compensated for all of the acreage.

On Mar. 22, 1983, the Secretary of Agriculture reported high sign up levels in the 1983 regular acreage reduction diversion and PIK programs. Producers farming 188 million acres (out of 231 million acres of the eligible feed grains, wheat, rice, and upland cotton acreage) signed program agreements with USDA to divert 83 million acres out of production. The magnitude of the acreage diversion under PIK makes it the largest such program in American agriculture. USDA estimated at the time that 1983 wheat and corn production would be reduced by about 25% as a result.

Those farmers who enrolled their acreage under the regular reduced acreage and paid diversion programs could withdraw from the program without penalty. Farmers with acreage under PIK faced heavy penalties for non-compliance.

IMPACT OF PIK

According to Secretary of Agriculture Block, in his statement of Jan. 11, 1983, PIK has a three-fold objective: "Reduce production, reduce surplus stock holdings, and avoid increased budget outlays that would otherwise be necessary under the price support programs." He added that: "It is unlikely our surplus will be substantially reduced any time soon by increased exports. PIK is aimed at bringing supply more in line with demand."

Impact on Production, Stock Levels, Farm Income and Farm Suppliers

USDA data of Oct. 25, 1983, shows that PIK in combination with the severe summer drought will have the following results:

-- Corn production in 1983 is expected to decrease by 49% from the record 1982 crop -- from 8.40 billion bushels to 4.26 billion bushels, according to USDA's September crop report. Wheat production in 1983 is expected to drop by less than one-fifth from 1982 levels -- from 2.81 billion bushels to 2.41 billion bushels. Rice production in 1983 is projected to drop by one-third to 102.6 million cwt., down from 154.2 million cwt. in 1982. Upland cotton production is forecast to decrease by more than one-third to 7.5 million bales, down from 12.0 million bales in 1982.

-- Total ending stocks of wheat in 1983/84 are expected to decrease slightly to 1.47 billion bushels, compared to 1.52 billion bushels in 1983. Ending stocks of corn are forecast to fall to only 625 million bushels, a tremendous reduction from the 3.43 billion bushels in 1983. Ending stocks for rice in 1984 are estimated at 33.7 million cwt., down from 71.5 million cwt. in 1983. Upland cotton stocks are expected to decline to 4.4 million bales, from 7.9 million bales in 1983.

-- Although not eligible for PIK, soybean production is expected to decline markedly as less soybeans are double-cropped and as nonparticipating farmers switch to corn and cotton due to stronger prices for these two program crops. In addition, the summer drought has reduced yields for these three crops and cut overall production in major growing areas. Soybean production is expected to decline dramatically from 2.23 billion bushels in 1982 to 1.52 billion bushels in 1983 (33% decline). Ending stocks for soybeans are forecast to decrease from 387 million bushels in 1982/83 to 120 million bushels in 1983/84.

-- Net farm income for 1983 is expected to rise substantially as a result of the acreage reduction that occurred under PIK and the production losses caused by the drought. Early USDA estimates forecast net farm income for 1983 at $16 to $20 billion. This was revised upward to 18 to 22 billion in the wake of PIK, and the most recent forecast puts the figure between $25 and 29 billion. Most of the increase is attributed to savings in production expenses rather than increases in cash receipts. Despite an anticipated strengthening of certain crop prices, crop cash receipts (according to USDA) are expected to decline from 1982's $74.4 billion to an estimated $67.8 billion in 1983, largely due to PIK's impact on marketings, prices, and loan activity.

-- PIK's impact on the livestock sector will be in the form of higher grain prices, which will combine with already reduced red meat prices to further squeeze producer profitability, resulting in lower red meat production in 1984 and correspondingly higher retail prices.

-- PIK is expected to have little impact on food prices in 1983. There will be more effect on retail prices in 1984 due to rising meat prices and expectations that vegetable oil and sweetner prices will also increase as a consequence of the small soybean and corn crops. Both soybeans and corn are important ingredients in livestock feeds, and both yield oils used in baking and cooking. Also, high fructose corn syrup, which is a widely used sweetner, is made from corn.

-- Reduced input purchases by producers participating in all acreage reduction programs will have an adverse impact on those businesses that normally supply them. Though agribusiness firms acknowledge that the stock-reducing effects of the program will be better for them in the long run as commodity prices improve, and producers begin to increase their purchases, many small town businesses that distribute these inputs are having a difficult year. In April USDA estimated that farmers would spend $4.9 billion less for major farm inputs this year compared to a scenario where no PIK program had been announced. In contrast, the Small Business Administration estimates farm suppliers will lose up to $7 billion in business this year. USDA estimates that farmers' use of such inputs as seed, fertilizer, and pesticides, and farm machinery repairs would drop 12-15%. Machinery purchases are expected to decline only 2-3%. This forecast reflects an improvement in farmers' cash flow as PIK-obtained commodities are sold.

PIK's Impact on Commodity Prices

Heavy enrollment in the PIK program and a severe drought throughout major crop producing regions are largely responsible for the increasing strength of corn and sorghum prices. The farm price received for corn has jumped from $2.36 a bushel in January to $3.30 in October (preliminary). Grain sorghum increased from $4.09 per hundredweight (cwt.) to an October price of $5.10. The farm price for cotton rose from 56 cents per pound in January to 64.7 cents in October. Average rice prices were $8.21 in October compared to $8.05 in January. Wheat prices initially rose from $3.57 a bushel in January to $3.77 in May, before declining to an average of $3.56 in October, due to a weak supply-demand outlook, and an increase in "free" stocks available to the market.

Though the intent of PIK is to reduce stock levels this year and next, price gains for PIK commodities were originally anticipated in 1984 and 1985. In the case of corn, however, PIK, in combination with the drought, has sharply reduced supplies and carryover, causing prices to move substantially higher. In a report of Oct. 25, USDA projected the prices of wheat, corn, and rice for the 1983/84 marketing year to range between $3.50-3.70/bushel, $3.40-3.80/ bushel and $8.50-10.00/cwt. respectively, an improvement over the $3.53/bushel, $2.70/bushel, and $8.18/cwt. that farmers are estimated to have received in crop year 1982-83.

Budget Savings Associated with PIK

USDA estimated in late May that the PIK program will reduce CCC outlays by more than $9 billion through FY86. Outlays are defined as the amount of money the CCC spends in any given year to support farm prices and incomes. Some outlays, such as nonrecourse loans, carry repayment obligations. Other outlays, such as deficiency payments, are non-recoverable and are counted as losses to the Government account.

The saving of $9 billion is a reduction from what outlays would have been if current commodity programs had continued without any changes during this period. The $9 billion in lower CCC outlays reflects savings of more than $3 billion in storage and interest costs, over $3 billion in deficiency payments, about $2 billion in lower land diversion payments, and less than $1 billion in other categories. Most of the savings will occur in FY84 and FY85. Savings of $2.6 billion in FY84, $4.4 billion in FY85, and $3 billion in FY86 will be offset by the additional $1 billion in outlays in FY83 reflecting increased loan activity associated with 1982 crops.

Costs of PIK

Commodities acquired by the CCC, through either purchase or loan default, may result in either gains or losses to the Government account. Despite PIK's effect on reducing CCC outlays through FY86 (by reducing direct payments, producer storage, interest expense, and storage and handling costs), PIK in the long term will increase the level of net losses to the Government from price support activities. PIK commodities cost money. Assuming that the PIK program will be continued a second year for wheat but not for other commodities, the Government will pay for most of these commodities in FY83 and FY84 by forgiving outstanding commodity loans or by giving its inventory of grain and cotton to participating farmers as payment-in-kind. So, the loan outlays that are now treated as accounts receivable, and secured by by commodities, will become net losses. Consequently, CCC owned stock paid to participating farmers will no longer appear as assets on the books of the CCC.

Experts offer a range of estimates on what the PIK program will eventually cost the Federal Government in terms of net losses. An economist with the American Farm Bureau Federation estimates the direct cost of PIK will be $9.37 billion. USDA's estimate is higher at $10.64 billion, assuming that PIK is limited to wheat in 1984, as seems likely. The department estimates the cost of running a second year of PIK for feedgrains, cotton, and rice at $2.29 billion. The Congressional Budget Office estimates PIK's cost at $8.3 billion in FY83 and, assuming a 2-year PIK program on all 5 commodities, an additional $2.9 billion in FY84. The difference in estimated costs revolves around the question of how to value the commodities that will be turned over to farmers participating in PIK. In a Nov. 3, 1983, statement before the House subcommittee on select revenue measures, the General Accounting Office estimated the cost of PIK at $10-$11.2 billion.

The USDA's 1984 corn program does not include a PIK component, because corn stocks have been severely reduced by PIK and the drought, resulting in a tighter than anticipated supply-demand outlook for corn. Another year of PIK for rice is also unlikely according to USDA officials. The prospect for another year of PIK for cotton producers is less certain, according to department officials, because the difficulties involved in administering PIK for cotton may discourage the department from offering it in 1984, despite an uncomfortably high level of stocks.

Criticism of PIK

Despite its initial popularity, PIK has come under increasing criticism from farmers, Members of Congress, consumers, and taxpayers. In addition, the enormous logistical difficulties involved in transferring huge quantities of commodities and a shortage of Government-owned stocks needed to make the in-kind payments have resulted in Government actions, like the "harvest for PIK" program in cotton, which have not been popular with producers.

PIK will impact negatively on rural businesses supplying production inputs to farmers. These firms have been suffering from low sales for two to three years because of a continuing slide in farm income, and thus purchasing power. Also, many farm supply representatives believe that the large acreage reductions caused by PIK will worsen their situation. Trade estimates of the drop in expenditures (generally higher than Government estimates) for purchased inputs in 1983 as a result of PIK range from $6.7 billion to $10.5 billion. But many farm supply representatives concede that unless the farm economy improves, farm supply businesses will suffer more in the future.

Recently, concern has been expressed by some Members of Congress and others over the number of large and corporate farms that will receive over one million dollars worth of PIK commodities. In a statement of Nov. 3, 1983, to the House subcommittee on select revenue measures, the General Accounting Office presented the results of its survey, which showed that payments to individual farms valued at over $2 million have occurred under PIK.

In addition, the severe drought in the Midwest combined with the acreage cutback under PIK has cut production of feedgrains more and driven prices higher than USDA had originally anticipated. In April, the Department stated that retail food prices in 1984 could rise 1 percentage point above the 2-4% increase expected in 1983. An additional 1-1 1/2% rise in food prices is anticipated by USDA due to the effects of the drought, for a total of about a 4-6 1/2% retail price increase in 1984. However, many private analysts are forecasting increases of 5-8% in 1984, to be led by gains in meat, vegetable oil, and sweetner prices.

PROGRAM IMPLEMENTATION AND LEGISLATIVE ACTIVITY

Legality of PIK

Although USDA's Office of General Counsel expressed the opinion that the Secretary held sufficient authority to implement a PIK program without congressional involement, the Secretary did request legislative assistance regarding two specific provisions in the 1981 Farm Act: 1) a waiver of the $50,000 limit on payments to individuals for making payments-in-kind, and 2) an exemption from the restriction on the CCC not to resell any stocks for less than 110% of the current farmer-owned reserve trigger prices.

Before the end of the 97th Congress, the full House, in H.R. 7439, and the Senate Agriculture Committee, in S. 3074, approved legislation removing possible legal obstacles to the program. The full Senate, however, was prevented from voting on the measure because of procedural objections, although most Senators agreed with the substance of the legislation.

Despite failure to get specific congressional authorization for the program, the Administration announced implementation of PIK on Jan. 11, 1983. This action was based on USDA General Counsel's legal opinion that the $50,000 payment limitation and the CCC resale restrictions do not apply to payments-in-kind.

The USDA General Counsel's opinion, however, has been disputed by GAO. In a Nov. 1, 1983, letter to Secretary Block, GAO Director Peach stated that its General Counsel has concluded that the $50,000 payment limitation does apply to payments-in-kind.

Farm Prices under PIK

Many Members of the 98th Congress originally expressed concern over the potential price depressing impact of PIK over the short term. A number of bills were introduced to guarantee PIK participants a minimum price for the commodities they receive under the program. However, this "floor price" concept has been generally opposed by the Administration at levels above 75% of the county loan rate, or about $1.99/bushel for corn and $2.74/bushel for wheat at the 1983 loan rates.

Tax Impact of PIK

The 98th Congress earlier addressed the possible tax implications of the PIK program. Areas which, without clarification, could have discouraged producer participation in PIK were: 1) the question of when taxes would have to be paid on PIK commodities, 2) the effect of PIK participation on estate taxes, and 3) the effect of PIK participation on a farmer cooperative's special tax status.

Legislation clarifying the tax implication of PIK was acted upon expeditiously and was signed into law (P.L. 98-4) on Mar. 11, 1983. It allows farmers to defer income tax payments on PIK commodities until they have been sold, provides that any farm receiving PIK commodities shall remain eligible for the special use valuation under estate tax law, and allows farmer cooperatives that receive PIK commodities to remain eligible for special tax treatment afforded cooperatives. The law also continues eligibility for the self-employment income tax, certain income tax credit provisions and the social security benefit provisions for farmers participating in PIK. This legislation, however, covers only PIK commodities harvested or planted during 1983 (1983 crops of corn sorghum, wheat, rice and cotton, and the 1982 crop of winter wheat). USDA has announced a 1984 wheat program containing a PIK component; thus new tax legislation will be needed. On a separate issue that was handled administratively, USDA extended the final settlement date for PIK certificates to Jan. 16, 1984, in order to provide "plant for PIK" participants with the option of marketing and thus deferring taxes on those commodities into 1984.

Shortfalls in CCC Stocks Needed to Meet PIK Commitments

The larger-than-expected signup for PIK committed USDA to obtain more commodities than the department had anticipated in order to fulfill their in-kind entitlements. The agreements, which producers signed with USDA to participate in PIK, contained provisions that gave USDA a number of options for obtaining additional PIK commodities. The first option offered additional in-kind compensation to producers to forfeit their 1982 crop loans. If this method failed to secure a sufficient amount, the CCC, under a second option, could require that producers take out loans on their 1983 crop, which would then be forfeited. The CCC would then give these producers title to the commodity they had produced to satisfy its PIK commitment. This was called the "plant-for-PIK" option.

Under the first option, USDA acquired sufficient amounts of corn, sorghum, and rice in order to meet PIK commitments. However, shortfalls in CCC stocks of wheat and cotton led the USDA to extend the initial period for producers to offer part of their 1982 and earlier year crop under loan. Producers, however, did not offer enough wheat, and thus USDA announced in early June that producers would be required to take out price support loans on part of their 1983 wheat crop in order to fill an 87 million bushel shortfall in PIK commitments for that commodity.

For cotton, USDA twice extended the time period for producers to offer their 1982 loans in return for special compensation. These extensions did not result in USDA securing the 700,000 to 900,000 bales still needed to meet PIK entitlements to producers, because cotton prices had moved significantly above the loan rate, leading producers to expect a better price from the market than under this forfeit scheme.

Consequently, in mid-June USDA indicated it would exercise its plant-for-PIK option, which requires producers to take out loans on their 1983 crop and then forfeit the cotton to the CCC at the 1983 loan rate of 55 cents a pound. Subsequently, the CCC would turn over the forfeited cotton to producers to meet its PIK commitments. Growers responded that this would cause problems, because up to two-thirds of 1983 cotton has already been sold under forward contracts, and that to require them in effect to sell to the CCC part of their crop at the loan rate would make it impossible for them to fulfill these contracts. Subsequently, legislation was passed by the House and Senate and signed into law (P.L. 98-63) directing the Secretary to offer to acquire 1980, 1981 and 1982-crop upland cotton on a bid basis from farmers who had cotton pledged as collateral for outstanding CCC price support loans. However, this effort also failed to attract the needed quantity of cotton. Therefore, USDA has announced plans to require cotton producers without outstanding commodity loans but with a 1983 crop of cotton to "harvest for PIK," at the rate of 40% of their PIK entitlement.

Unlike cotton, rice stocks are sufficient to fulfill PIK commitments. However, some producers in Mississippi, Louisiana, and Florida will receive rice from Arkansas, and many Texas producers will receive California rice. This situation has angered many Texas growers who produce long grain rice, which sells for a premium over California rice. In order to resolve the disparity created by the shortfall of Texas rice, USDA will provide Texas long grain rice producers with 130 lbs. of California rice for each 100 lbs. of PIK entitlement they own. In addition, the Department will either pay storage on the California PIK rice until Apr. 30, 1984, or allow producers eligible for 1983 crop loans to transfer that eligibility to their California PIK rice. Even so, some growers have criticized the decision, claiming the price differential between Texas and California rice is not fully reflected in the Government's plan.

As of early November 1983, the entitlement (or payment) dates have been reached (except for cotton, which was extended). USDA estimates that payments made to producers under PIK will amount to 1.75 billion bushels of corn, 550 million bushels of wheat, 175 million bushels of grain sorghum, 40 million hundredweight of rice, and 4.3 million bales of cotton.

1984 PIK Program for Wheat

Despite PIK, carryover stocks of wheat are expected to decline only slightly to 1.47 billion bushels in 1983-84 vs. 1.54 at the end of the previous marketing year. This situation led Agriculture Secretary Block to announce that a PIK component will be included in the 1984 wheat program. Farmers who participate in the program, which includes a mandatory and non-paid acreage diversion of 30%, will be eligible to idle an additional 10-20% of their acreage under a PIK scheme that provides for an in-kind payment rate of 75% (compared to 95% in 1983). PIK payments for 1984 crop wheat will come either from grain already under Government loan or, in the absence of outstanding loans, producers will agree to "harvest for PIK."

CONCLUSION

The 1983 payment-in-kind program has reduced the production of grains and cotton this year. In addition, the severe drought conditions that have prevailed throughout major crop regions this summer are causing extensive losses to some program crops, most notably corn. The record acreage removed from production under PIK will result in a more rapid than previously expected adjustment in stock levels by the end of 1983/84 marketing year for all commodites except wheat. These factors have caused prices of the PIK commodities to strengthen, especially in the case of corn.

More significant, perhaps, are the longer-term policy implications. During much of the 1970s it seemed as though the perennial problem of surplus farm commodities had disappeared. The 1980s, however, have seen the return of excessive stocks, weak demand and corresponding low farm prices. Despite this Administration's advocacy of a market oriented farm policy, it has nonetheless initiated a massive supply control and acreage reduction program. Implementation of PIK represents further Government intervention into the farm sector.

The current problem of farm surpluses, like those of earlier years, is in part due to the fact that farm productivity has increased more rapidly than demand for farm products. Over the past decade, crop yields have increased by an average of 3.1% annually, while the annual growth in demand averaged 2.8%. Additionally, some analysts assert that Federal price support programs have encouraged overproduction.

When supply is increasing more rapidly than demand the choices are simply these: produce less or sell more. For U.S. farmers to sell more means increasing export sales, since there is very little potential for growth in domestic markets beyond the increase in population -- currently less than 1% annually. Presently, the potential for increasing export markets is also limited. Congress has provided the Administration with increased program authority and earmarked funds to vigorously promote U.S. farm exports and additional export promotion legislation is under consideration. Despite these efforts, the value of U.S. farm exports declined about 11% in FY82, and is expected to decline an additional 12% this year. Much of the drop can be attributed to the worldwide recession and the appreciation of the dollar making U.S. exports more expensive to foreign purchasers. Agricultural export promotion legislation by itself has had little impact on these factors.

Because of weakness in demand, this Administration has chosen to reduce production. Substantial production cuts will occur under PIK and the program will provide a temporary solution to the current problems of overproduction and burdensome surpluses. On the other hand, implementation of PIK may over the longer-term achieve results exactly opposite from its objectives. Some analysts believe that for the United States to remain competitive in the international market as well as avoid the role of the world's granary, production controls and price support programs should be significantly reduced or eliminated. Farm policy, it can be argued, has been moving in this direction. Implementation of PIK seems to represent a reversal of that trend and may be interpreted as sending a signal to farmers that despite the rhetoric about having to depend on the market, when times get tough enough the Government will offer some form of assistance. Although the USDA is emphasizing the temporary nature of the payment-in-kind program, this type of program will probably continue to receive serious legislative consideration over the next several years since the fundamental inbalance between supply and demand could persist throughout the remainder of the 1980s.

Future congressional debate is likely to occur within the more general context of trying to develop farm policies and programs that offer the most effective, yet least costly, method of reducing supplies. During this discussion, the following questions are likely to be raised:

> How can PIK, which represents an increase in Government intervention in the farm sector, be reconciled with the Administration's explicit free market objectives?
>
> Does PIK represent a shift in direction of Federal farm policy away from market-oriented farm programs toward more restrictive and non-market responsive programs characteristic of the 1950s and 1960s?
>
> Are current accumulations of stocks and difficulties in disposing of excess stocks a result of inherent weaknesses in Federal stock management and disposal programs, or are they a result of weaknesses in Federal price support program which tend to encourage overproduction? If the fault lies in the latter, are current efforts to refine and improve surplus disposal and stock management programs sufficient or misdirected?
>
> Rather than pay storage and inventory maintenance costs, would Federal funds be better spent on disposal programs such as PIK and export promotion programs?
> Are current program authorities adequate to manage and dispose of surplus stocks of agricultural commodities, or should greater emphasis be placed on production controls?
>
> Should the U.S. continue its production control efforts in the face of production increases in other exporting nations? Does this policy put the U.S. at a comparative disadvantage in world markets?
>
> Can the current loan rate/target price structure, which seems to encourage higher yields and greater production, be adjusted to function sucessfully in a period of large surpluses and declining demand?

LEGISLATION

Numerous PIK-related bills were introduced into both Houses this session ranging in purpose from guaranteeing participants a minimum value for PIK payments to compensate victims of grain warehouse insolvencies. Among the many bills introduced were the following:

P.L. 98-4, H.R. 1296

Amends the Internal Revenue Code of 1954 with respect to the tax treatment of agricultural commodities received under the payment-in-kind program. Provides that commodities received under PIK be treated as though they had been produced by the farmer, allowing the farmer to defer payment of taxes on these commodities until they have been sold. Also provides that any farm receiving payments-in-kind shall remain eligible for special use valuation under current estate tax law and that farmer cooperatives receiving PIK commodities remain eligible for special tax status afforded cooperatives. The law also provides continued eligibility for the self-employment income tax, certain income tax credit provisions, and social security benefit provisions for PIK farmers participating in PIK. The law covers only those commodities harvested or planted in 1983. H.R. 1296 introduced Feb. 7, 1983; referred to Committee on Ways and Means. Referred to Subcommittee on Select Revenue Measures on Feb. 15, 1983. Subcommittee hearings and mark-up held and bill reported out Feb. 23, 1983. Full committee consideration and mark-up held Mar. 1. Measure, as amended, reported to the House Mar. 2 (H.Rept. 98-14). Bill called up by House under suspension of rules, amended and passed by a vote of 401 to 1 (record vote no. 21) Mar. 8. Received in Senate, amended and passed in lieu of S. 690 with an amendment by voice vote on Mar. 8. House agreed to Senate amendments with an amendment by unanimous consent on Mar. 9. Senate agreed to the House amendment to the Senate amendment by voice vote Mar. 10 and the measure was cleared for the White House. Signed into law Mar. 11, 1983.

P.L. 98-63, H.R. 3069

Makes supplemental appropriations for FY83 and for other purposes. Among its many provisions, directs the Secretary of Agriculture to solicit bids from cotton producers in order to acquire sufficient cotton for 1983 payment-in-kind stocks. Any limits placed on bids are to be no less than those placed on earlier feed grain bids (20%). This provision was added by House and Senate conferees and is identical to language contained in H.R. 3385 (H.Rept. 98-289), which passed the House July 19, 1983.

Reported to House from Committee on Appropriations, May 18, 1983 (H.Rept. 98-207). Measure called up by special rule; considered and passed House, May 25, 1983. Referred to Senate Committee on Appropriations on the same day; reported with Senate Committee on Appropriations with instructions, June 16, 1983. Reported to the Senate from the Committee on Appriations, and passed the Senate on the same day. Conference report filed in House July 20, 1983 (H.Rept. 98-308). House agreed to conference report July 28, 1983. Senate agreed to conference report July 29, 1983. Signed into law July 30, 1983.

H.R. 922 (Glickman)

Provides for non-recourse loans on commodities received as payments in kind. Introduced Jan. 25, 1983; referred to Committee on Agriculture. Referred to Subcommittee on Cotton, Rice and Sugar and Subcommittee on Wheat, Soybeans and Feed Grains on Feb. 4. Executive comment requested from USDA Feb. 8, 1983.

H.R. 2634 (English)

Requires that in any payment-in-kind program provided on the 1984 crop of an agricultural commodity, the Secretary of Agriculture must give the producers the option to receive their payments in cash. Introduced Apr. 20, 1983; referred to Committee on Agriculture.

H.R. 2958 (Evans)/S. 843 (Cochran)

Amends the Agricultural Act of 1949 to authorize the Secretary of Agriculture to make payments (in cash or in kind) to reimburse producers for the cost of applying approved conservation practices to acreage diverted under an acreage limitation program for the 1982-85 crops of wheat, feed grains, upland cotton, rice, and soybeans. H.R. 2985 introduced May 10, 1983. S. 843 introduced Mar. 17. Both bills referred to their respective Committees on Agriculture.

S. 36 (Cochran)

Authorizes special payment-in-kind program for the 1983 and 1984 crops of certain agricultural commodities and to provide authority for activities to develop and expand markets for U.S. agricultural commodities. Includes requirement that the Secretary of Agriculture take such actions as may be necessary, including making cash payments, to ensure that the value of commodities received under PIK are not less than 75% of the basic county loan rate for the particular commodity. Introduced Jan. 26, 1983; referred to Committee on Agriculture. Hearings held on Feb. 3, 1983 before the Subcommittee on Agricultural Production.

S. 596 (Pryor)

Grain Storage Compensation Act of 1983. Provides surplus commodities to farmers who lost grain stored in certain insolvent warehouses. Introduced Feb. 24, 1983; referred to Committee on Agriculture, Nutrition and Forestry. Referred to Subcommittee on Agricultural Production, Mar. 22, 1983. Subcommittee hearings held July 28, 1983.

S. 1053 (Bumpers)

Amends the Agricultural Act of 1949 to require the Secretary of Agriculture to use surplus agricultural commodities to make supplemental payments in-kind to producers who divert acreage from the production of agricultural commodities under a basic payment-in-kind program and devote such acreage to long-term conservation uses. Introduced Apr. 14, 1983; referred to Committee on Agriculture, Nutrition and Forestry.

S. 1439 (Pryor)

Agricultural Disaster PIK Act. Amends the Agricultural Act of 1949 to permit the Secretary of Agriculture to use surplus Government-owned commodities to make disaster payments for the 1983-85 crops of wheat, feed grains, cotton, and rice instead of cash. Introduced June 9, 1983; referred to Committee on Agriculture.

HEARINGS

U.S. Congress. House. Committee on Agriculture. Payment-In-Kind. Hearings, 97th Congress, 2d session. Dec. 16, 1982. Washington, U.S. Govt. Print. Off., 1982. 61 p.

U.S. Congress. House. Committee on Agriculture. Subcommittee on

Wheat, Soybeans, and Feed Grains and Subcommittee on Cotton, Rice, and Sugar. Review of Payment-in-Kind program. May 24, 1983. (hearing record not yet published)

U.S. Congress. House. Committee on Government Operations. Farm program decisions, 1980-83: The road that led to PIK. Nov. 1, 1983. Washington, U.S. Print. Off., 1983. 24 p. (98th Congress, 1st session. House. Report no. 98-456)

U.S. Congress. House. Committee on Small Business. Subcommittee on Energy, Environment and Safety Issues Affecting Small Business. Impact of Payment-in-Kind program on small businessmen. Apr. 28, 1983. (hearing record not yet published)

U.S. Congress. House. Committee on Government Operations. Subcommittee on Government Information, Justice and Agriculture. Implementation of USDA's Payment-in-Kind program. Hearings, 98th Congress, 1st session. Mar. 3, 1983. Washington, U.S. Govt. Print. Off., 1983. 76 p.

U.S. Congress. Senate. Committee on Agriculture, Nutrition and Forestry. Agricultural Act of 1982. Hearings, 97th Congress, 2d session. Dec. 9, 1982. Washington, U.S. Govt. Print. Off., 1982. 207 p.

----- Grain Storage Compensation Act of 1983. Hearings, 98th Congress, 1st session. July 28, 1983. (hearing record not yet published)

U.S. Congress. Senate. Committee on Agriculture, Nutrition and Forestry. Subcommittee on Agricultural Production, Marketing and Stabilization of Prices. Agriculture Act of 1983. Feb. 3, 1983. Washington, U.S. Govt. Print. Off., 1983. 165 p.

REPORTS AND CONGRESSIONAL DOCUMENTS

U.S. Congress. House. Committee on Agriculture. Upland cotton PIK program. July 12, 1983. Washington, U.S. Govt. Print. Off., 1983. 8 p. (98th Congress, 1st session. House. Report no. 98-289)

U.S. Congress. House. Committee on Ways and Means. Payment-In-Kind Tax Treatment Act of 1983. Mar. 2, 1983. Washington, U.S. Govt. Print. Off., 1983. 30 p. (98th Congress, 1st session. House. Report no. 98-14)

U.S. Congress. House. Committee on Government Operations. The Department of Agriculture's Payment-In-Kind program. House Report No. 98-113, 98th Congress, 1st session. (98th Congress, 1st session. House. Report no. 98-113)

U.S. Congress. House. Conference Report. Supplemental appropriations for FY83 and other purposes. July 20, 1983. Washington, U.S. Govt. Print. Off., 1983. 73 p. (98th Congress, 1st session. House. Report no. 98-308)

CHRONOLOGY OF EVENTS

11/03/83 -- In a written statement delivered before the House subcommittee on select revenue measures, the General Accounting Office said a survey it conducted showed the average PIK payment to the 708 farms surveyed amounted to $175,000. Seven of the farms would receive payments valued at more than $2 million.

11/01/83 -- In a letter to Agriculture Secretary Block, the General Accounting Office stated that in the opinion of its General Counsel, the $50,000 government payment limit does apply to payments-in-kind.

08/31/83 -- USDA announced that cotton producers participating in PIK, who have no outstanding CCC commodity loans but do have 1983 crop cotton, will be required to "harvest for PIK."

08/09/83 -- USDA announced 1984-crop wheat program, including a payment-in-kind component. The program includes a 30% acreage reduction component, and a 10-20% PIK feature.

-- USDA reversed previous policy, by allowing farmers in drought stricken areas to graze livestock on PIK fields. Such emergency grazing is to be approved on a county-by-county basis.

08/02/83 -- USDA announced a revised cotton bid program from Aug. 8-24, to acquire crops of 1980, 1981, 1982 cotton under CCC loan, in order to secure a sufficient quantity of cotton to meet its requirements under the PIK program.

07/25/83 -- USDA announced that Texas rice producers receiving lower-class and quality California rice under PIK would receive additional quantities as compensation. Furthermore, Texas producers eligible for 1983 crop loans would be allowed to transfer that eligibility to their California-PIK rice.

-- USDA issued procedures to extend the period for obtaining or liquidating a price support loan, as well as the date of PIK availability, for payment-in-kind purposes, until Jan. 16, 1984. The action was taken in order to facilitate producers' normal marketing practices under PIK.

06/17/83 -- USDA announced that it will require cotton producers to obtain loans on their 1983 production for use to meet PIK commitments to them.

06/08/83 -- USDA announced that wheat producers who do not have sufficient amounts of wheat pledged as price support loan collateral to meet their PIK entitlement will be required to obtain loans on part of their 1983-crop production.

06/02/83 -- USDA announced a second extension of its deadline until June 16 to accept offers of cotton under loan from producers for use in the PIK program.

05/26/83 -- USDA extended its deadline until June 2 to accept offers of cotton from producers for use in the PIK program.

05/25/83 -- Secretary John Block outlined what the 1984 wheat program may be during a markup session conducted by the House Agriculture Committee on a proposal to freeze target prices through 1985. The outline includes a 20% acreage reduction component and a 20% PIK feature.

05/11/83 -- USDA announced that it would take bids until May 26 to acquire cotton from farmers who have 1982 upland cotton currently under loan and pledged as loan collateral. USDA took this action to fulfill PIK commitments after it determined that CCC needed more cotton to fill PIK program commitments to participating producers.

05/05/83 -- USDA announced it would accept offers through May 27 from wheat producers to make available their 1983 crop production for PIK purposes because CCC's inventory of wheat is not sufficient to fulfill all PIK commitments.

-- USDA released updated enrollment data on the 1983 acreage reduction, paid land diversion, and PIK programs. The revised figures show that 82,952,056 acres will be idled under these programs.

03/29/83 -- USDA announced that for a two-week period, beginning Apr. 4, it would offer to acquire corn, sorghum and wheat from farmers who have these commodities under loan.

01/11/83 -- Administration announced details of the planned implementation of the PIK program.

12/19/82 -- Measure authorizing PIK failed to come to a floor vote in the Senate. Attempts to raise the measure again for consideration over the next two days were similarly unsuccessful.

12/18/82 -- House passed by voice vote H.R. 7439 authorizing a payment-in-kind program following hearings on Dec. 16, 1982.

12/13/82 -- Senate Agriculture Committee unanimously approved S. 3074 authorizing a payment-in-kind program following hearings held on Dec. 9, 1982.

11/17/82 -- USDA began a series of informal briefings with Congressional Members and staff, and with representatives of farm groups concerning a proposal to implement a payment-in-kind program.

11/15/82 -- Secretary of Agriculture Block held informal discussions with representatives of national farm and commodity groups to explore alternative measures to improve the farm economy.