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AGRICULTURE: PAYMENT-IN-KIND (PIK) PROGRAM
IP0240A

On January 11, 1983, President Reagan announced that the U.S. Department of Agriculture would implement a payment-in-kind (PIK) program to help reduce Government grain surpluses and to improve farm income. In response to numerous requests for information on this topic, we have compiled the enclosed materials on this program and the initial reaction to it.

Additional information on the subject, primarily in periodicals and newspapers, may be found in a local library through the use of indexes such as the Readers' Guide to Periodical Literature, Public Affairs Information Service Bulletin (PAIS), and the New York Times Index.

We hope this information will be useful.

Members of Congress desiring additional on this topic should call CRS at 287-5700.

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Agriculture

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BLOCK ANNOUNCES PAYMENT-IN-KIND PROGRAM DETAILS

DALLAS, Jan. 11--Secretary of Agriculture John R. Block today announced details of a payment-in-kind -- PIK -- program for the 1983 crops of wheat, corn, grain sorghum, cotton and rice. President Ronald Reagan announced the program at the American Farm Bureau Federation meeting today.

"PIK is basically simple," Block said. "Farmers who take out of production additional acres over what they agree to take out under the current program will receive as payment a certain amount of the commodity they would have grown on these acres. The commodity is theirs to do with as they wish. Commodities for the PIK program will come from farmer-owned reserve, regular loan or CCC-owned stocks.

"We have a three-fold objective with PIK," Block said. "Reduce production, reduce surplus stock holdings, and avoid increased budget outlays that would otherwise be necessary under price support programs." Block said worldwide demand is weak, due to severe financial problems of major foreign customers and a strong dollar making our exports more expensive. "It is unlikely our surplus will be substantially reduced any time soon by increased exports," he said. "PIK is aimed at bringing supply more in line with demand.

"Farmers can expect to receive the same or greater net returns while the stock adjustments are occurring. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced.

"Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist. Farmers taking part in PIK will

also avoid some variable costs, and their production risks will also be lowered. In addition, financially strapped farmers participating in the PIK program will not have to borrow as much for production expenses."

Block said PIK has built-in safeguards to assure that there will be enough production so the U.S. will remain a reliable supplier to domestic and foreign customers. The program is self-terminating; it is planned for 1983 and, if necessary, the 1984 crops. "When excess supplies are reduced to a level we feel is more in line with demand, PIK will go out of existence," Block said. "Also, sound conservation practices will be applied to more acreage and storage space problems will be lessened."

Signup for PIK will begin Jan. 24 and run through March 11.

"Farmers have four possible options for making their 1983 plans," Block said. "They may participate only in the regular farm programs; participate in the regular program plus the 10 to 30 percent PIK; withdraw the entire base acreage if their whole base bid is accepted; or not participate at all."

Farmers wishing to take their entire base acreage out of production may bid to do so by specifying the percent of the farm yield they will accept in return for diverting all of their acreage. They may bid any amount but it must be no more than the offer rate for the 10 to 30 percent PIK.

The number of whole base bids accepted will depend on the level of signup for the 10 to 30 percent PIK, the supply-demand situation for each commodity, conditions in local areas, and other relevant factors. However, in no case would the amount diverted exceed 50 percent of the total base in the county. The Commodity Credit Corporation reserves the right to reject any or all bids.

Block said conservation use acreage eligibility requirements would be the same as previously announced 1983 programs, except haying and grazing will be permitted only on winter wheat planted prior to the announcement of PIK. Under summer fallow rules, PIK acreage will have to be acreage that would have been planted in 1983.

When farmers sign up for PIK, they will contract to receive a certain amount of bushels or pounds of the commodity they would have produced on PIK acres, Block

said. This will be an announced percentage times the farm program yield times the number of PIK acres. The percentages are 95 for wheat, and 80 for corn, grain sorghum, cotton and rice.

Payment-in-kind will be in terms of #1 wheat, #2 yellow corn, #2 grain sorghum, historical area average quality upland cotton, and for rice, the historical area average of the type, quality and milling outturns.

Block said producers will receive their payments-in-kind from CCC stocks. Quantity adjustments will be made to account for variations in the quality of commodities Producers entering PIK with outstanding reserve or regular price support loans must make the commodities under loan available to CCC for use in the program in return for liquidation of their loans. They cannot forfeit or redeem their commodities under loan and then draw additional commodities from CCC stocks. Loans which mature before producers receive their payment-in-kind will be extended and storage will be paid by CCC from maturity until receipt of the payment-in-kind.

Program participants will receive payments-in-kind during the normal harvest period. Dates will be announced for different areas. To give the producer marketing flexibility, the CCC will pay storage costs from the date of payment-in-kind to redemption or delivery of the commodity not to exceed five months. The annual storage rate will be 26-1/2 cents per bushel for wheat, corn and sorghum, and 85 cents per hundredweight for rice. The storage rate for cotton will be the approved rate charged by the warehouse where the cotton is stored.

Producers redeeming farm-stored grain from the reserve will be compensated for an additional seven months storage from the redemption date, less any unearned storage. To ensure adequate grain where requested, CCC will trade grain receipts with elevators, if necessary. Quality adjustment will be made.

Block said there was no specific priority for redemption for the grains. Stocks may come from the farmer-owned reserve, or any year's outstanding loans. However, for upland cotton, participants will be required to liquidate their oldest crop loans first.

Any grain going into the farmer-owned reserve after Jan. 11 will not be used in the PIK program, unless the loan request has already been filed. Eligibility for all 1982 reserve loans will continue until March 31 for small grains and May 31 for feed grains.

Block also announced the provisions for the 1983 reserve program. Entry into the 1983 reserve will be allowed after a 9-month regular loan period. Entry level for all commodities will be at the regular loan rate. Storage payments of 26-1/2 cents per bushel will be allowed for wheat, corn, sorghum and barley, with 20 cents for oats.

The Federal Crop Insurance Corporation will increase the yield guarantees of insured producers participating in PIK. Participating at the additional 10 percent but less than 20 percent level increases the yield guarantee by percent; participating between 20 percent but less than 30 percent will result in a guarantee increase of 8 percent; and participating at the maximum of 30 percent will increase the yield guarantee by 10 percent. FCIC is offering these higher guarantees without a corresponding rise in premium rates because risk of loss is reduced.

Farmers will be able to get full details on the PIK program from their local Agricultural Stabilization and Conservation Service office by the time the PIK signup begins on Jan. 24. Meanwhile, farmers can call a toll-free number, (800) 368-5942, to get answers to their questions. This number will open for calls weekdays from 8 a.m. until 8 p.m., EST, beginning Jan. 12.

Interim regulations will be published in the Federal Register with a request for comments. Producers entering into an agreement during the comment period will be given the opportunity to withdraw from the agreement should there be material changes in the final regulations. Comments must be received by Feb. 11 and should be sent to: Howard Williams, director, analysis division, USDA, ASCS, Room 3741-South Building, P.O. Box 2415, Washington, D.C. 20013. Phone: (202) 447-3391.

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CHICAGO TRIBUNE
SECTION 1 PAGE 1, 8
JAN 1 2 1983

Grain offered for idled land

By James Worsham
Chicago Tribune

DALLAS—President Reagan announced Tuesday that his administration would use the huge surpluses of U.S. grain to ease farmers' financial problems.

Reagan, who generally opposes grain embargoes, also announced that he has signed a bill exempting U.S. farm products covered by contracts that call for delivery within nine months of an embargo's announcement.

The measure, however, will still allow an embargo similar to the 1980 ban on grain sales to the Soviets that is partially blamed for today's huge surpluses. The embargo provision was part of a bill reauthorizing for four years the Commodity Futures Trading Commission.

As expected, Reagan said he would go ahead with a program under which surplus grain would be given to farmers who cut back on production of corn, wheat, rice, cotton and grain sorghum.

"IT'S REALLY a crop swap," Reagan said at the 64th annual convention of the American Farm Bureau Federation, meeting in Dallas.

"A farmer who takes additional acres out of production would be able to swap what he didn't grow for a certain amount of the commodity already in surplus. He can then do with it as he wishes."

The White House hopes that by reducing the surpluses, the prices that farmers get for their crops will rise from severely low levels, but Reagan made no predictions of big increases, and neither has any other administration official.

The payment-in-kind program will save the government $3 billion to $5 billion a year in storage and farmer loan costs beginning in fiscal 1984, the administration predicts. But it will have little or no impact on food costs to consumers.

"Let's face it. Let's not fool anybody. Until farm prices go up, you will be hurting," Reagan told the federation, one of the nation's largest and most conservative special-interest organizations. Based in Chicago, it represents 3.2 million farm families, half of them in the Midwest.

BOTH REAGAN and the federation, which has endorsed the crop swap scheme, have resisted major government expenditures to ease the economic crisis in agriculture. In the last three years, farm income has plunged to Depression levels, where it is expected to remain in 1983.

The White House had sought congressional approval for the program in the lame-duck session last month, but the Senate failed to act after Sen. John Melcher [D., Mont.] blocked consideration.

Since then, U.S. Department of Agriculture attorneys have ruled that there is enough authority under existing law to begin the program, which Reagan said would start Jan. 24. The scheme was used in the 1930s and 1960s to reduce huge surpluses.

Referring to the widespread publicity given to farm foreclosures, Reagan reminded his audience that he had instructed the Farmers Home Administration to consider problem cases on a "case-by-case basis to help them get back on their feet."

REAGAN ALSO announced a move aimed at generating more overseas markets for farm products. He said $250 million more will be used to lower interest rates that foreign customers must pay to borrow money to buy U.S. products.

In 1982, Reagan said, a $100 million investment in this "blended credit" program increased foreign farm sales by $500 million.

Reagan called attention to his lifting of the Soviet grain embargo imposed by President Carter three years ago and said the world could "count on America" for food aid and farm supplies.

The ban on embargoes signed by Reagan had been opposed by the Department of State but supported by the Agriculture Department.

Reagan's crop swap program will allow some farmers to idle as much as 50 percent of their land.

The Agriculture Department predicted commodity prices "may not increase significantly in the near term," although they "should firm" as overall supplies drop.

P.A19
THE WASHINGTON POST, THURSDAY, JANUARY 13, 1983

Kenneth R. Farrell

But Will It Work?

At first glance, the apparent logic and simplicity of President Reagan's announced plan to make payments-in-kind (PIK) to farmers is appealing. Any program that promises simultaneously to improve depressed farm prices and income and reduce swelling government outlays ($12 billion) for commodity programs stands a good chance of playing well in both Washington and Peoria.

But will it work? And is it good farm and food policy?

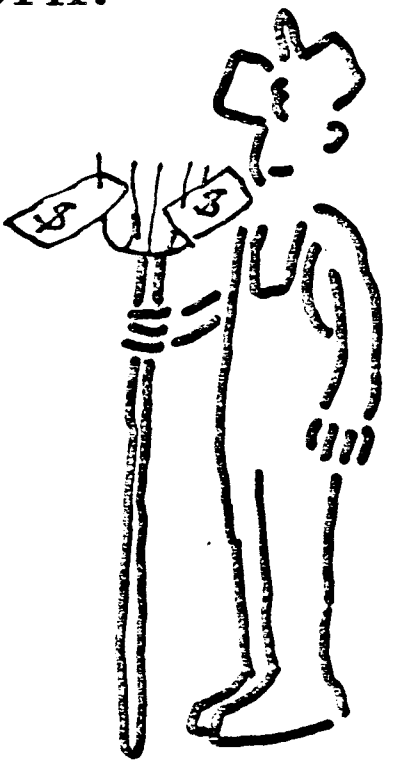
The administration seems determined to make the program attractive to cash-hungry farmers. For not planting up to 30 percent of their 1983 base acreage of wheat and feed grains (25 percent for cotton), farmers would receive quantities of commodities equal to as much as 80 to 90 percent of that acreage's "normal" yields. To participate in PIK, farmers must first comply with already announced cropland diversion programs (20 percent for wheat and feed grains, 25 percent for cotton).

Together, the two programs could idle as much as half of the 1983 base acreage, with farmers receiving payment either in cash or in kind on as much as 80 percent of the acreage. And, if a 25-to-30-percent PIK is not sufficiently alluring, the administration will consider allowing whole farms to be withdrawn from production on a bid basis.

In theory, this administrative sleight-of-hand should produce several results: the farmer reduces his out-of-pocket costs by not producing on as much as 50 percent of his cropland—or possibly his whole farm—while receiving cash and commodities to dispose of as he sees fit; 1983 production is reduced and market prices increased from otherwise prevailing levels; and the current large supplies of stocks (government-owned and/or farmer-owned under government programs), stock management costs and government budget exposure in 1983-84 all are reduced. A close look at the implications and risks of the program, however, reveals something short of a panacea.

At maximum, as much as 100 million acres of cropland could be idled under PIK and diversion programs. Although certainly not all farmers will participate, and some "slippage" will occur because of "phantom" acres, diversion of least productive land, and use of fertilizer and other land-substitutes, production declines could be substantial. Poor weather here and abroad combined with large-scale participation in PIK could force prices sharply upward throughout world agricultural markets.

But the opposite also could happen. Since payments in kind would come from market-insulated stocks owned either by government



Drawings by Zarko Karabatic

or by farmers under government programs, PIK commodities would increase the supply of "free" stocks—and a combination of PIK, favorable weather here and elsewhere, and weak demand could push market prices down in late 1983 and in 1984. To limit the downside market risk for PIK participants, the Senate Agriculture Committee during the lame-duck session approved a floor for PIK commodities at no less than 75 percent of their government-guaranteed 1983 prices, themselves scheduled to increase under other legislation. If retained, that provision raises the anomalous possibility of government having to repurchase its own stocks of commodities! The House voted to exempt PIK from the current ceiling of $50,000 for government payments to any individual participant, raising potential equity problems.

Managing the program and minimizing its potentially uneven impacts among farmers and regions will require a vast web of administrative rules and regulations. Even if they can be made operational in time for farmers' decision-making for 1983—which is doubtful—the result will be further government intrusion in the farm economy. And this from an administration dedicated to the free market.

The rationale for this inconsistency is that PIK is an emergency (one- or two-year) program designed to cope with a short-term economic crisis in agriculture. Further, the administration contends, PIK is the only feasible weapon at hand to attack the twin economic and political problems of a depressed agriculture and burgeoning budget outlays—a contention unfortunately close to the mark.

No one disputes that agriculture is experiencing one of its most difficult years since the 1930s. But the same could be said for other sectors of the economy, including agriculture-supply industries that could be hurt by PIK.

Until demand for farm products can be strengthened at home and abroad through economic recovery, some assistance to agriculture may be warranted, especially since government policies partly caused the current overexpansion in production. But where do we draw the line? And should we risk shutting down the productive capacity of millions of acres of cropland when weather-induced shortages are all too possible in an inherently unstable world agriculture? The lessons of the 1960s and 1970s should not so quickly be forgotten.

PIK and similar short-run palliatives to deal with the "farm problem" mirror the disarray that plagues U.S. agricultural policy in general. Despite fundamental changes in the structure and economics of agriculture in recent decades, farm price and income policy is largely bound by concepts and legislation of the 1930s.

More specifically, PIK reflects the glaring absence of an adequate food security policy to mitigate the effects of chronically unstable food supplies. Although current U.S. commodity stocks are large, global stocks—at 17 percent of annual use—are not out of line by historical standards, and probably are minimal. A U.S food security policy—preferably coordinated international food security policies—designed to reduce the instability of food supplies would view current U.S. abundance as an opportunity to build valuable reserves against future production shortfalls. Instead, the U.S. inclination is to short future markets and manage domestic stocks to improve farm prices and incomes. Until the two objectives are clearly differentiated for policy purposes and until Congress and the administration give higher priority to long-run food security, U.S. programs will serve neither objective very well.

PIK can be made to work, if the price is right. It even can be rationalized as necessary under current circumstances. But as long-range farm and food policy it's like using aspirin to treat malaria—the symptoms may be eased for a while, but there's no cure in sight.

The writer is director of the Food and Agricultural Policy Program at Resources for the Future.

p. B21 JAN 20 1983 THE NEW YORK TIMES,

Crop Surplus Plan: Impact Disputed

By SETH S. KING
Special to The New York Times

WASHINGTON, Jan. 19 — Now that the initial excitement over the Reagan Administration's new agricultural payment program is subsiding, analysts are divided over whether it will have any real effect this year on the badly depressed farm economy.

News Analysis

The "crop swap" arrangement would give surplus wheat, corn, rice or cotton to farmers who reduced their 1983 acreage in those crops by 10 to 30 percent beyond participating in the 20 to 25 percent paid reduction program already offered for this year.

Its twin objectives are to reduce the Government's costs in storing nearly two years' domestic supply of wheat and more than half a year's supply of corn, and to take more than 23 million acres of grain and cotton land out of production this summer. The latter move would reduce the surplus somewhat and perhaps by next fall improve net farm earnings, now at the lowest level since 1933 because of falling farm prices and rising production costs.

Skeptics among farmers and private analysts contend that the new program will serve only as further proof that there is little the Agriculture Department can do, short of bankrupting the Federal Treasury, to reduce the price-depressing grain and cotton surpluses except to create another bureaucratic acronym, in this case PIK, for payments in kind.

The experts agree that farmers are keenly interested in the plan, the only new farm commodity aid program produced by the Reagan Administration in its first two years.

The Farm Bureau Federation, the country's largest and most conservative farm organization, has endorsed the program in principle and urged members to participate.

Among farmers of winter wheat, who planted last fall, enthusiasm for the new plan was said to be in direct proportion to the condition of that crop and how the early spring weather would affect it.

Earl Rosenbaum, a Pratt, Kan., wheat farmer, said last week that nearly 80 percent of the farmers in his area were already participating in the 20 percent acreage reduction program and thus were eligible for the new payment program.

"But to get in on PIK, we'd have to plow under some real good-looking wheat, and it wouldn't pay us to do that," Mr. Rosenbaum said. "However, I just came up through northwest Oklahoma Thursday, and their wheat is in very bad shape from dryness. Unless that changes, most of those farmers will gladly be in the PIK program."

The analysts also agree that if there is to be even a slight reduction of the surplus next October, virtually all the grain and cotton farmers will have to get into the program and not plant at least 45 percent of their farms. But neither the private analysts nor the Agriculture Department's soothsayers will have any reasonable guess of how many farmers will play in this new game until after the signup period ends March 11.

For example, a quick study by the Pioneer Seed Company assumes that about 60 percent of the country's corn farmers will participate in the paid reduction program and that about three-quarters of these will also participate to some degree in the additional reduction under payments in kind.

If only 10 percent of the corn land goes into the program, a corn crop of 7.5 billion bushels could be produced with near-normal weather and subsoil moisture conditions and with plenty of inorganic fertilizer available at low costs. This would be nearly 400 million bushels more than is now being consumed, and the surplus would actually be increased.

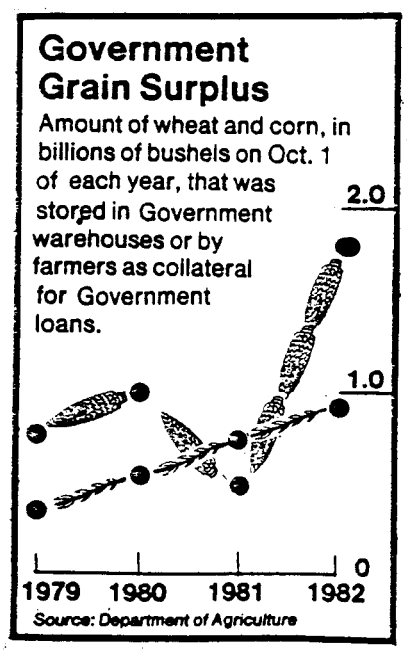
Even if the maximum 30 percent of the corn land is put under the payment-in-kind program, the study showed, farmers could still produce a crop of 6.8 billion bushels, which would make only a slight dent in the surplus.

In presenting the plan to Congress, Agriculture Secretary John R. Block said it might save $1 billion to $5 billion over the next three years in the costs of storing and handling current surpluses.

Yet all except a fraction of the more than 3.5 billion bushels of grain, mostly wheat and corn, and of the 3.8 million bales of upland cotton now in storage are still in the on-farm reserve rather than in Commodity Credit Corporation warehouses. Farmers received loans for placing grain and cotton in this reserve, with the stored grain as collateral. Their payments in kind will be in the canceling of these loans.

The Government would not have to pay the current storage fee of 26 cents a bushel on the reserve grain it gives back. But the analysts say they believe relatively little of the grain and cotton the Government has to pay to store in the credit corporation's warehouses would go out as payments in kind.

The new program will certainly not require any additional outlays from the 1983 budget, since the loans on reserve grain have already been charged against that budget, the Office of Management and Budget says. But if these loans are canceled and the collateral grain goes back to the farmers, the charges for these transactions will have to be met in the fiscal year 1984, in which Congress has to replenish the credit corporation's revolving fund.



General Q & A's on the Operation of the 1983 PIK Program
REVISED 1-20-83 1/

1 What is a Payment-In-Kind Program?

The PIK program is designed to encourage farmers to further reduce 1983 crop acreages of wheat, corn, sorghum, upland cotton and rice from the previously announced programs. In return for participation in a PIK program, a producer will receive an amount of the commodity as payment for reducing planted acreage.

2 Why is a PIK Program Needed?

The announced 1983 program(s) for wheat, corn, sorghum, rice and cotton were designed to reduce excess supplies which have been depressing farm prices. Despite the Department's best effort to announce effective programs, several factors have come together to prevent the programs from actually reducing 1983/84 ending stocks and the downward pressure on prices and incomes that farmers are now experiencing. Some of the most important factors include:

A Large Global Supplies. There was record world production of grains, oilseeds, and cotton in 1981/82, record world crops of grains and oilseeds again in 1982/83. We estimate that by the end of 1982/83 the United States will hold nearly 150 million tons of grain stocks, roughly 60 percent of the world's carryover and more grain than we export annually.

B Global Recession. Demand has been very weak. World use of feed grains, which had been growing at an average rate of 16 million metric tons (mmt), each year over the past two decades, has not increased since 1978/79; world wheat consumption, which had been increasing at an average 10 mmt per year since 1960, has been flat since 1979/80.

C Strong U.S. Dollar. The value of the U.S. dollar relative to 10 major currencies is at its highest level since 1969. The increasing value of the dollar has actually increased the price of our commodities in terms of foreign currencies despite the decline in prices in U.S. dollar terms.

D Financial Plight of Major Importers. Financial problems of a number of middle income countries, which represent a significant portion of the foreign demand for U.S. farm products, have impacted on our export potential.

1/ Changes in questions and answers 1-84 are indicated by an asterisk. Questions and answers starting with number 85 are new.

Released by U. S. Department of Agriculture January 25, 1983.

3 What are the objectives of the PIK program?

--- Reduce stocks while cutting production, lessening the overhang on the market in future years and enhancing prospects for a market-led recovery in farm prices.

--- Maintain supplies in marketplace, showing the U.S. intends to be a reliable supplier abroad.

--- Minimize CCC loan forfeitures by utilizing commodities under outstanding regular loans for PIK compensation.

--- To reduce Farmer-Owned Reserve (FOR) stocks to more desirable levels by utilizing these stocks for PIK compensation.

--- To promote farm income while at the same time reducing costs to the Federal Government and, thus, to U.S. taxpayers.

--- To lessen storage space problems.

4 Why not a larger paid diversion program instead of the PIK?

A larger paid diversion program would be more costly than the PIK program, and would not accomplish the objective of sharply reducing the FOR and government inventories. The PIK program is the most cost-effective program for reducing stocks, and getting the agriculture sector on the road to recovery.

5 When will farm operators be able to sign up in the program?

Signup will begin January 24 and end March 11, 1983. The end of signup for the previously announced acreage reduction and land diversion programs will be advanced to also end on March 11.

6 Why is the ending signup date for the previously announced programs being changed?

We need to have signup in the acreage reduction and land diversion programs complete before the county ASC committees begin to evaluate the bids received under the whole base PIK diversion. Setting an early date permits producers to make their farming plans on a timely basis.

7 Does the PIK program change any aspects of the previously announced programs?

No. All provisions of the acreage reduction and land diversion programs as previously announced will apply for farms that participate in the the PIK program.

8 Who is eligible to participate in the PIK program?

Producers on any farm for which an 1983 acreage base and yield has been established for wheat, corn and sorghum, rice, and upland cotton under the previously announced programs.

9 How were the 1983 acreage bases established?

The Omnibus Budget Reconciliation Act of 1982 requires that the bases for wheat, feed grains, and rice for 1983 be the same as those established for the farm for 1982, adjusted to reflect crop rotations and other factors the Secretary determines should be considered in determining a fair and equitable base.

The upland cotton acreage bases for farms that participated in the 1982 cotton program or reported zero planted acreage will be the same as the 1982 base. For other cotton farms, the base will be the average of the cotton acreage on the farm in 1981 and 1982.

10 If a farm is participating in the program for a commodity, but the acreage base is underplanted, what happens to the 1984 acreage base?

The farm's 1984 acreage base will not be reduced due to under planting in 1983.

11 What are the percentages of the farm yield under the 10-30 PIK diversion?

Wheat is 95 percent. Corn, grain sorghum, upland cotton and rice are all 80 percent.

12 Why is the wheat PIK set at 95 percent of the farm yield while the PIK for other commodities is set at 80 percent?

Wheat is the only fall-seeded crop eligible for PIK. These producers have already incurred substantial costs to plant the crop, which is not generally true for spring-seeded crops. While some wheat is spring-seeded, it would be impractible to have different percentages for fall and spring-seeded wheat since both may be planted in the same area.

13 Why were barley and oats not included in the PIK program?

*— A For barley, the ratio of ending stocks to utilization is not as severely out of line with historical levels as it is with corn and sorghum. We also believe the announced acreage reduction/cash land diversion program will help limit the supply of barley. Barley prices can also be expected to benefit from the anticipated tightening of feed grain supplies.

B For oats, as for barley, the level of carryover stocks relative to utilization does not significantly exceed historical rates. In addition, the announced acreage reduction/cash land diversion program is expected to keep oat stocks at an acceptable level. --*

14 What must be done to enroll in the PIK program?

The farm operator will be required to enroll the farm in the acreage *— reduction program (ARP) andfor wheat, feed grains, and rice land diversion programs and sign a contract with the county ASCS office agreeing to —* reduce the acres of the crops for harvest by the percent desired above the previously announced program.

15 What can the farm operator sign up for under the PIK program?

For PIK diversion, the farm operator may sign up to divert a part of the crop acreage base (any amount that is no less that 10 percent or more than 30 percent of the crop acreage base) or bid to divert the whole crop acreage base.

16 Does the farm operator have to sign up for both the 10-30 percent PIK diversion and the whole base bid?

No. The farm operator may sign up for either one or both.

17 Must the operator decide the amount of PIK diversion at sign up?

Yes, the operator must determine the amount which will become part of the PIK contract and will determine the maximum permitted planted acreage.

18 What does the bid consist of under the whole base PIK diversion?

The operator offers to reduce the planted acreage of the crop to zero and devote an acreage equal to the acreage base for the crop to approved conservation uses. The operator bids by specifying the percent of the farm program yield per acre that is acceptable as compensation for participation. If accepted, the bid applies on the total PIK acreage diverted.

19 Is there a limit on what may be bid?

The operator may bid any amount. However, the county ASC committee will not accept bids that exceed the per acre offer rate for the PIK diversion.

20 Can the bid be changed?

Any bid received may be changed or withdrawn by the operator up to the end of signup.

21 How does the operator make a bid?

The operator will bid by completing the PIK contract which includes the bid amount. Bids will be submitted as sealed bids through March 11, 1983.

22 What is the procedure for accepting bids?

In an open public meeting on March 18, the county ASC committee will open all bids and arrange the bids from the lowest percentage of the effective yield to the highest. If the county is authorized to accept bids, the bid with the lowest percentage will be accepted first. Ties will be settled by taking the first bid received in the county ASCS office (by date and time). Any remaining ties, or ties in counties that conduct signup by appointment, will be broken by lottery.

23 Is there a county limit on the acreage that can be accepted under the bid?

The number of whole base bids accepted will depend on the level of signup in the 10-30 percent PIK, the supply-demand situation for each commodity, con-
-- ditions in the local area, and other relevant factors. However, in no case --
would the amount diverted exceed 50 percent of the total base in the county. CCC reserves the right to reject any or all bids.

24 When does the contract take effect for whole base PIK?

Contracts submitted by the farm operator to the county ASCS office by March 11 will take effect when accepted by the county ASC committee on March 18.

25 Who must sign the contract?

-- The farm operator is responsible for submitting the contract by no later than March 11; however all producers must sign by no later than March 17. The county committee may for 10-30 percent PIK permit a later signature in hardship cases. After all signatures are obtained and the contract is signed by the county committee it becomes final and binding on both Commodity Credit Corporation (CCC) and the producers. --

26 Will tenants and sharecroppers be protected?

A contract will not be accepted if it is known that a landlord or operator has not afforded the tenants or sharecroppers, if any, the opportunity to participate. This includes reducing the number of tenants or sharecroppers in anticipation of or because of participation in the program. (This is the same protection offered under the acreage reduction and paid land diversion programs.)

27 What will the operator agree to in the contract?

*-- A For the 10-30 percent PIK diversion, the operator must limit the final acreage to an agreed upon amount and devote the required eligible acreage to conservation uses.

B For an accepted whole base PIK bid, the operator must agree to reduce the acres of the crop for harvest to zero and to devote the required eligible acreage to conservation uses. --*

28 What will happen if the farm does not comply or fails to comply fully with terms and conditions of the contract?

The normal failure to fully comply provisions will apply.

A Producers who attempted in good faith to comply with the contract within allowable tolerances will not be affected.

B Producers who attempted to comply with the contract in good faith but exceed the tolerance will have program benefits reduced proportionately.

*— C For violation of the contract provisions, producers who did not attempt in good faith to comply will be declared ineligible for PIK program benefits for the crop. Such producers will also be required to pay liquidated damages.

29 Can an operator offer or bid only one base or must all bases be considered?

Cross compliance will not apply and each base will stand on its own with one exception. Bases for corn and grain sorghum are combined to afford producers additional flexibility and they must be considered in total. The same offer and bid rate will apply to both bases.

30 Can an operator offer or bid only the base on one farm or must all farms operated be considered?

Offsetting compliance will not apply. Each farm will be considered individually.

31 What happens if a farm change requiring a reconstitution occurs after a PIK contract is filed?

*— A If the reconstitution is initiated during the signup period, PIK contracts must be cancelled for crops for which the reconstitution is effective for the current year. The farm operator will be given an opportunity before close of signup to enroll the resulting farm in the PIK program for those crops.

B If the reconstitution is initiated after signup closes, the reconstitution will not be effective for the current year for any crop for which a PIK contract is in effect. —*

32 What acreage will be eligible to be designated as conservation use acreage under PIK?

The current requirements for the acreage reduction program conservation use acreage will apply except for summer fallow producers. The PIK program compensates the producer for the commodity that would have been produced in 1983; therefore, to achieve the necessary reduction in production, summer *-- fallow producers must designate for the PIK acres land that would normally be devoted to the production of small grain or row crops in 1983. This rule does not apply to the increased conservation use acreage requirement computed by considering the PIK acres as planed acres. --*

33 Can the conservation use acreage be grazed or harvested?

The acreage can be grazed except during the six principal growing months. This 6-month period between February 28 through October 31 will be determined by the local ASC committee. Mechanical harvesting of any crop will be prohibited. There are exceptions to these rules for winter wheat planted *— prior to the announcement of the PIK program (see question 34). —*

34 What about the wheat producers that have already planted their 1983 crop?

These producers who participate in PIK must also limit their acreage for harvest; however, to be fair and equitable, they will be permitted to graze the acreage or to cut the acreage for hay. So that a grain crop is not produced, the acreage must be substantially destroyed by the deadline established for the county (see question 85). In addition, if approved by the State ASC committee with concurrence of the State Conservationist for the Soil Conservation Service, the stubble may be eligible cover.

35 Specifically, how much conservation use acreage (CUA) is required under different situations?

The required CUA acreage for a farm with a 100 acre base for each commodity will be as follows:

Participates in the additional PIK diversion at 30% of base with maximum planted

Commodity	Permitted Ac.	CUA				Total Plan and CUA
		ARP	Pd.Div.	PIK	Total	
*--Corn/sorghum	50	10.0	10.0	30.0	50.0	100.0
Wheat	50	15.0	5.0	30.0	50.0	100.0
Cotton	50	20.0	0 1/	30.0	50.0	100.0
Cotton	50	18.8	5.0 1/	25.0	48.8	98.8
Rice	50	15.0	5.0	30.0	50.0	100.0

1/ For PIK participation the cotton paid diversion is optional up to 5 percent of the cotton acreage base; however, the sum of the PIK acres plus the paid diversion acres cannot exceed 30 percent of the base.

Participates in Whole Base Bid phase of PIK

Commodity	Permitted Ac.	CUA			
		ARP	Pd.Div.	PIK	Total
Corn/sorghum	0	0	10.0	90.0	100.0
Wheat	0	0	5.0	95.0	100.0
Cotton	0	0	0 2/	100.0	100.0
Cotton	0	0	5.0 2/	95.0	100.0
Rice	0	0	5.0	95.0	100.0

2/ Cotton paid diversion is optional up to 5 percent of the cotton acreage base; however, the sum of the PIK acres plus the paid diversion acres cannot exceed the base. --*

36 What about producers that have already accepted advance deficiency or diversion payments?

In cases where the producer diverts all of the base or substantially reduces planted acreage, a refund may be required. This will be determined when final payments are computed. No interest charges would apply on any refunds for PIK participation; however, refunds not made within 30 days from the request will be subject to late payment charges.

37 What is the method of compensation under the PIK program?

The producer will have the right to receive bushels or pounds of a specific commodity—the commodity for which acreage was diverted. However, CCC reserves the right to substitute, on a bushel for bushel basis, corn for grain sorghum.

38 When will the PIK commodities be made available?

The PIK availability date will be determined and announced by the Secretary for each production area based on the normal harvest for the crop in the area.

39 How is the amount computed?

By multiplying the established percentage (offer or bid rate) times the farm program yield, times the acres diverted from production of the crop under the PIK program.

40 Does the payment limitation apply to the PIK program?

No, the payment limitation provisions do not apply to payment-in-kind under the program. We believe that Congress imposed the limitation to prevent excessive cash payments out of the Tresury to any one farmer. We do not believe Congress intended to limit the use of commodities owned by the Commodity Credit Corporation in a program to control production and reduce the cost of farm programs.

41 How does the PIK program impact agribusinesses?

The limit on the amount of crop acreage base in a county that can be withdrawn from production is intended to minimize adverse effects. One of the objectives of the program is to improve the farm economy benefiting all agribusiness in the long run from an effective program.

42 Are the 10-30 percent PIK diversion and the whole base bid the only ways a producer can receive PIK compensation?

No. Under the previously announced acreage reduction and land diversion programs, there is a $50,000 limitation on total 1983 payments to a producer. Producers whose payments are reduced because of the limitation may request a proportional reduction in their total conservation use acreage requirement. Under the PIK program, these producers will be able to forego this reduction for special PIK compensation if the farm is participating in the PIK program for the crop. The compensation is 50 percent of the farm's program yield for the applicable commodity times the conservation use acreage that would have been reduced for that crop.

43 How can the PIK be received?

A Producers with outstanding CCC loans (regular and FOR) must allow CCC to use loan collateral for their PIK payment.

— B Generally, producers with no outstanding CCC loans or with loans where the outstanding loan amount is less than the PIK amount will receive the PIK by acquiring the commodity from an approved warehouse. In some instances, however, these producers may be required at CCC's option, to obtain a 1983 CCC regular loan to use for their PIK payment. This option will be used sparingly. —

44 Can a producer designate a specific class of a commodity for PIK purposes?

— No. The PIK will be in terms of Number 1 wheat except Number 2 for soft red winter wheat, Number 2 corn, Number 2 sorghum, and for cotton and rice the historical area average quality. —

45 When can a producer receive the PIK?

PIK must be received during the 5-month period beginning on the PIK availability date.

46 If a producer has a CCC price support loan, does the producer have to make the loan collateral available to CCC?

Generally yes, if the loan on the applicable commodity is outstanding on March 11. However, this does not apply if the outstanding loan was obtained from another county or application for FOR was applied for after
— January 11. In addition, at CCC's option, the producer may be required to obtain a 1983 loan for the amount needed for PIK. —

47 Will a cotton or rice producer who is an active member of a marketing cooperative be required to receive the PIK through the cooperative that has an outstanding loan for the commodity?

Yes, unless the producer has an individual loan on the same commodity through the county office. Wheat and feed grain producers will not receive PIK through cooperatives.

48 What will the cotton or rice co-ops do with the PIK?

The co-op must permit CCC to use the loan collateral for PIK purposes. CCC will provide the co-op with the quantity of the PIK that exceeds the co-ops outstanding price support loans.

49 If a producer's regular or reserve loan was obtained on grain the producer acquired and substituted for eligible grain, must the loan be liquidated even though it is stored in some other county?

Yes. If the loan was obtained in the country where the PIK is issued.

50 Can a PIK participant redeem a CCC loan through normal repayment provisions?

Producers with loans outstanding as of March 11 may not redeem or forfeit loan quantities that would result in an outstanding loan amount less than their PIK.

51 Since a PIK participant cannot forfeit a loan after March 11, who pays the storage until the PIK is received?

CCC will pay storage from loan maturity up to 5 months following beginning of PIK availability.

52 *— If Form CCC-813, Release of Warehouse Receipts and Redemption Agreement for cotton is on file in the county office on or before March 11, must the producer make the cotton available to CCC? —*

No. The producer has sold his equity in the cotton. The buyer has agreed to redeem the cotton and CCC is obligated not to permit redemption by anyone other than the buyer. See question 108.

53 What are the charges on a loan liquidated to make the commodity available to CCC?

— CCC will fully compensate the producer for interest and handling charges assessed on the quantity which the producer must make available to CCC. However, CCC may require the producer to refund transportation paid by CCC in some cases where the producer requested the relocation of grain. This does not include compression charges for cotton unless the cotton was reconcentrated as directed by CCC. —

54 How will CCC determine the quantity of the loan commodity a producer must make available to CCC?

Quantities must be made available on a bushel for bushel or pound for pound basis unless the loan was made on a grade or quality different from the base grade or quality used to determine the PIK. In that case the quantity is adjusted to reflect that difference.

55 How will the quantity be adjusted?

Assume a producer has available a PIK of 1000 bushels of No. 2 corn. The producer's warehouse-stored loan was made on 1982-crop No. 3 corn that had 15.5 percent moisture; a test weight of 52 pounds; and broken kernels and foreign material of 4 percent. The loan rate of $2.55 was reduced by 4 cents to $2.51 because of the discounts. The base loan rate was 1.016 of the discounted loan rate (2.55 divided by 2.51 = 1.016 rounded to 3 decimal places). The 1000 bushel PIK of NO. 2 corn will equal 1,016 bushels of the *— discounted corn. (1000 bushels X 1.016). (In this example, 1982 loan differentials were used; however, 1983 loan differentials will be used.) —*

56. Who is responsible for storage on the PIK commodity?

CCC will pay storage for up to 5 months after PIK availability period begins. The producer will be responsible for storage and warehouse charges following the availability period or earlier if t he producer takes title to the commodity before the end of the availability period.

57 What storage rate will CCC pay PIK participants?

Storage payments for regular loan or FOR shall be issued at the following rates:

Commodity	Annual Rate	Daily Rate
Wheat, Corn	$.265 bu.	$.000726 bu.
Sorghum	$.4732 cwt.	$.001296 cwt.
Rice	$.85 cwt.	$.002329 cwt.
Cotton	(The rate specified in the schedule of rates for the applicable CSA warehouse where the cotton is stored).	

Storage payments for CCC inventory commodities shall be paid to the warehouse by CCC at the warehouse's UGSA, URSA, or CSA rate.

58 What happens to storage earning on FOR loans that will be liquidated?

Producers will continue to earn FOR storage until the loan is liquidated *-- or for a maximum of 5 months beyond the PIK availability date. In addition, producers with farm-stored FOR loans will receive additional compensation of 15.5 cents per bushel (equal to 7 months storage) with respect to the quantity redeemed. However, all producers will be required to refund all unearned storage. This compensation for farm-stored FOR will be received by the producer as part of the CCC purchase price for the commodity to take into account long term storage commitments which the producer may have undertaken.

59 Will producers who must liquidate farm-stored FOR loans receive any additional compensation?

Yes, producers will earn an additional payment equal to 7 months storage.

60 Why do farm-stored FOR participants receive additional compensation?

Some producers built farm storage structures to store the FOR grain. To require early liquidation of the FOR loan may cause financial hardship unless some additional assistance is granted.

61 Why not assist warehouse-stored FOR participants?

Producers with warehouse-stored loans have not invested in storage facilities. They will continue to earn storage through the date of liquidation, not to exceed 5 months. The producer should receive a refund from the warehouseman for unused storage.

62 If after using the PIK the producer has a partial bin of grain or a partial warehouse receipt remaining, can the balance be forfeited or delivered?

If the producer must liquidate the loan on 75 percent of the quantity represented in an individual bin or warehouse receipt for PIK purposes, the *-- balance of the quantity pledged as collateral for loan which is remaining in the bin or receipt, not to exceed 5,000 bushels (or the equivalent number of --* pounds) of the commodity, may be sold to CCC.

63 Can producers repay the balance of a warehouse receipt or bin?

The balance on a regular loan can be repaid. However, the balance on a FOR loan cannot be repaid without early redemption charges, unless it is a mature loan.

64 Will producers continue to be permitted to place grain in FOR?

Yes, since they were assured of the option as a condition for program participation. However, the final date for reserve entry will be the commodity's applicable final loan availability date (March 31 for wheat and May 31 for corn and sorghum).

65 Will all FOR grain be used for PIK?

No, only grain in FOR or with FOR application on file on or before January 11 will be eligible to be used for PIK.

66 In cases where cotton producers have more than one crop year production under loan, will they have a choice of which crop year loan to liquidate?

No. While grain producers will have the choice of which crop year loan to liquidate, cotton producers must liquidate the oldest crop year loan. If the oldest crop year production is under several loans, the producer may choose the applicable loan. Once the loan is selected, the bales will be liquidated in the order they appear on the cotton warehouse receipt listing form (CCC Cotton A-1).

67 For cotton, the PIK will be expressed in pounds which in most cases will not correspond to whole bales. How will this be resolved?

A cotton producer will receive the full bale.

68 The current cotton program provisions provide a set-off for cotton research and promotion. Since production under this PIK program may be substantially reduced, what effect, if any, will this have on the research and promotion fund?

There will be no adverse impact on the research and promotion fund. Any cotton received under the PIK program will be subject to the research and promotion fee. The set-off will be made by the first buyer when the producer markets the PIK cotton.

—69 Can a PIK recipient of wheat and feed grain, who is provided the commodity by CCC (not out of FOR or loan) be guaranteed availability at— the warehouse of his or her choice?

No, although the producer will, during signup, indicate a perferred approved warehouse delivery point in the producer's county or in an adjacent county.

--70 If for wheat, and feed grains, CCC is unable to provide the commodity at the producer's preferred warehouse, where will the commodity be-- delivered?

CCC will use the following order of preference in selecting approved houses:

A. In producer's own county.
B. In adjoining county.
C. In nearest house "in line" to subterminal or terminal.

71 What options will a producer have with commodity obtained from CCC with the PIK?

Producers may keep the commodity or dispose of the commodity in any manner.

72 How will the warehouse know who has CCC commodities coming, and how much?

Each producer will receive a "letter of entitlement". The warehouseman will receive a courtesy copy of the producer's letter. Warehousemen will also receive open loading orders from CCC listing total quantities to be made available.

73 If a producer elects to withdraw the PIK from warehouse storage, is the producer responsible for loadout charges?

— Yes, any loadout and/or transportation charges after the producer takes title to the PIK will be borne by the producer. —

74 How will a warehouse be reimbursed by CCC for storage earned on PIK commodities?

The warehouseman will submit an invoice to CCC along with a copy of producer's letter of entitlement to receive the applicable storage payment.

75 What will be done to reduce the market impact caused by the release of FOR, loan, and CCC inventory to use the PIK?

Commodities will be released to producers after the PIK availability date. The southern areas where harvest occurs first will receive the PIK entitlement first. Additional areas will receive PIK entitlements as harvest normally progresses. It should be noted that less of a commodity will be released through PIK than would have been harvested in the absence of PIK. The impact is further minimized by CCC agreeing to pay storage costs for up to 5 months if the producer holds the PIK commodity off the market.

76 We understand the FCIC is offering an incentive to PIK program participants. Why?

FCIC wants to encourage program participants to continue their insurance coverage and this is a way to attract new producers to the program.

77 How does the FCIC incentive work?

Participating in the PIK program at a level at least 10% but less than 20% increases the yield guarantee by 6%; participating between 20% but less than 30% will result in a guarantee increase of 8%; participating at the maximum of 30% will increase the yield guarantee by 10%.

78 How does an insured farmer become eligible for the yield guarantee increase?

No action will be required by the program participant. All policies will be issued at standard rates and coverages. In the event of loss, the producer's policy guarantee will be adjusted according to his verified ASCS records of participation in PIK.

79 Will there be extra cost to the producer for the increased guarantee?

No, the premium rate per acre will be the same as with the standard coverage.

80 How can FCIC offer these higher yield guarantees without a corresponding increase in premium rates?

These yield coverage increases recognize the probability of increased per acre yields on the remaining acreage of program participants. The harvested acreage is expected to exceed the average production potential of the entire farm. FCIC anticipates more timely operations and increased inputs per acre on the reduced acreage planted. FCIC can offer these higher guarantees without a corresponding rise in premium rates because the risk of loss is reduced.

81 Will FCIC accept revised acreage reports on insured winter wheat destroyed to comply with PIK?

Yes, until March 11. The PIK participant must identify the acreage to be destroyed on an ASCS map attached to the revised acreage report. No premium will be charged for destroyed acreage which is timely reported. Producers submitting bids for whole farm participation may submit a zero acreage report which is conditional upon acceptance of their bid by ASCS.

82 Why not accept revised acreage reports until PIK bids are awarded?

Any extension beyond March 11 would increase FCIC's risk of loss without offsetting premium income to unacceptable levels. One of the major causes of winter wheat loss is winterkill which cannot be assessed until the crop emerges from the dormant stage in early spring. The risk of excess moisture and flood loss increases as time passes. Free insurance coverage on destroyed acreage until March 11 should be an additional incentive to participate in PIK.

83 How will winter wheat producers be informed of the proper procedure for revising their acreage reports?

FCIC will send a letter of notification to each insured producer of winter wheat stating exactly how to revise acreage reports and the deadline for doing so.

84 How can the producer obtain additional information?

Farmers will be able to get full details on the PIK program from their local county ASCS office.

*--85 What are the rules for haying and grazing wheat acreage that was planted before the PIK was announced?

A Since the PIK program for wheat was announced after much wheat acreage had already been planted, wheat acreage planted before January 12, 1983, may be designated to meet any conservation use acreage requirement (acreage reduction, paid diversion, or PIK conservation use acreage) for any program PROVIDED the farm is participating in the PIK program for any crop. Such acreage so designated may be grazed without regard to the 6-month nongrazing period and hayed before the disposal deadline announced for the county. This acreage must not be overgrazed so as to subject the land to erosion.

B If the wheat acreage is overseeded after January 11 or replanted to another cover crop, the haying and grazing provision in subparagraph A above does not apply following the overseeded or replanting of the wheat acreage (see question 33).

86 Can a producer obtain a regular loan up to the final loan availability date and still redeem the quantity of the crop pledged as security for the loan to the extent of the PIK requirements?

Yes.

87 How long will a PIK participant be allowed to redeem or forfeit a CCC loan through the normal repayment and forfeiture provisions?

Up through March 11, 1983. After March 11, participants will not be allowed to redeem or forfeit loans to the extent of their PIK requirements.

88 Will a producer who is receiving his PIK commodity from CCC stocks also receive the 5-month storage payment from CCC?

No. CCC will pay the 5-month storage to the storing warehouse up to the date the producer redeems the PIK entitlement not to exceed the 5-month availability period. --*

*-- 89 When will a producer who redeems a regular loan to the extent of the PIK requirements receive storage payments?

At the time of redemption or at the end of the 5-month availability period, whichever comes first.

90 How long will CCC issue the annual FOR storage payment to producers?

CCC will issue FOR storage payments to reserve producers in the normal manner until the beginning of the commodity's applicable PIK availability period.

91 Will CCC loans maturing on or before March 11 be available for redemption for PIK purposes?

Producers with loans maturing on or before March 11 may request an extension of the maturity date, for the quantity needed to satisfy the PIK. Producers will earn storage at the rate applicable to the PIK commodity for the period beginning March 12 and ending on the earlier of the date of redemption or the end of the 5-month PIK availability period.

92 Will CCC loans maturing after March 11 and before the beginning PIK availability period be eligible for PIK?

Yes, loans maturing after March 11 will be automatically extended for the quantity needed to satisfy the PIK to the end of the 5-month PIK availability period. Producers will earn storage payments at the rate applicable to the PIK commodity for the period beginning with the date the loan would have otherwise matured and ending on the earlier of the date of redemption or the end of the 5-month PIK availability period.

93 Can a producer feeder who has a repayment schedule established on a loan continue the schedule after March 11?

No. A producer feeder will not be permitted to redeem the quantity of the loan needed to satisfy the PIK requirements between March 11 and the PIK availability date.

94 Can the producer use the PIK in small amounts?

Except for cotton producers who receive their PIK from CCC inventory must accept delivery of the total PIK quantity. However, producers who use the PIK to repay outstanding loans may liquidate partial loan quantities. Producers liquidating warehouse stored loans must liquidate all of a warehouse receipt.

95 Can producers convert their current reserve loans into Reserve V?

Yes, however, producers will not be permitted to convert existing reserve agreements to Reserve V after the applicable deadline for entry into the reserve (March 31 for wheat, May 31 for corn and sorghum). --*

*-- 96 Will producers converting existing reserve loans to Reserve V after January 11, 1983, be required to liquidate quantities of the commodity pledged as collateral for the loans to the extent of their PIK requirements?

Yes.

97 Will producers converting existing regular 9-month loans to Reserve V after January 11, 1983, be permitted to liquidate quantities of the commodity pledged as collateral for the loans to the extent of their PIK requirements?

No.

98 Can a producer convert a purchase agreement to a:

A Regular loan after March 11 and use the loan for PIK purposes?

Yes, provided the purchase agreement is converted to a regular loan within the loan availability period (March 31 for wheat and May 31 for corn and sorghum).

B Reserve loan after March 11 and use the loan for PIK purposes?

No. While a producer may convert the purchase agreement to a reserve loan before the reserve deadline entry, the new reserve loan may not be used for PIK purposes.

99 Will the 1983 wheat and feed grain crops be eligible for the 1983 reserve?

Yes, 1983 wheat and feed grain crops will be eligible for the reserve. However, rather than immediate entry as in the past, entry into the reserve will be allowed only after the 9-month regular loan period. Entry level for all commodities will be at the regular loan rate. Storage payment rates will be retained at the 1982 level.

100 Will protein be taken into consideration for purposes of quality adjustments for wheat?

Yes. If the loan value received by the producer was increased to reflect protein content, the quantity the producer is required to liquidate with PIK will be reduced to reflect the increased loan value.

101 Can producers assign the quantities of the commodity which they are to receive as payment-in-kind.

Yes. --*

*-- 102 Are there the same limitations on assignments of PIK as there are on cash payments?

No. Cash payments cannot be assigned to pay a preexisting indebtedness. Assigned cash payments must be to cover advances made to finance the current year crop, or related purposes. However, since PIK is not a cash payment, these limitations will not apply. A separate assignment form will be provided covering PIK, which contains the terms and conditions for such assignments.

103 Since the PIK amount can be assigned, can the storage of up to 5 months or th additional compensation to producers with farm-stored FOR loans equal to 7 months storage be assigned.

No.

104 For cotton if a producer has both 1981 and 1982-crop cotton loans that exceed the PIK quantity, can the producer redeem either loan?

Yes. The only restriction is that a quantity of the commodity equal to the quantity of the commodity which the PIK producer is entitled to receive for PIK purposes must remain under loan until the commodity is to be made available to CCC.

105 For cotton if a producer participating in the PIK program has both 1982 and 1981-crop cotton loans, can the producer forfeit 1981-crop loans?

No, not for the quantity needed for PIK purposes. The maturity date for the oldest crop loan has been extended to the end of the availability period for the quantity needed for PIK.

106 Will storage payments be made on the cotton described in the above question?

Yes, CCC will pay all storage costs but will not pay compression or outhandling charges.

107 Will CCC resample and/or reweigh the cotton which producers will receive as PIK?

No. As for other commodities, the cotton will be considered to be the same grade and weight as when it was placed under loan. Because of the limited time available, it would be impractical to resample and reweigh. —*

*-- 108 Under what conditions will a CCC-813 be accepted for cotton?

A CCC-813 may be filed anytime through March 11 for any quantity of cotton. After March 11, a CCC-813 may be filed only for an amount of cotton in excess of the amount of cotton that the producer will earn in the county under a PIK contract.

109 If a cotton or rice producer does not have a loan, or has a loan but the quantity is smaller than the PIK the producer will earn in the county, will the producer be able to designate a preferred warehouse?

No, questions 69 and 70 apply only to grain. Cotton and rice producers will receive the commodity where stored.

110 How will CCC determine the location of the cotton or rice the producer will receive?

To the extent practical, CCC will apply three rules to determine the cotton or rice to transfer to an individual producer:

A The total quantity earned on a farm will be stored in one location.

B The quantity will be stored in the local area, if possible.

C The quality will be similar to that normally produced in the local area. For example, if there is insufficient cotton now in CCC stocks in California, California producers would probably receive cotton stored in the Memphis area rather than Texas.

111 If the producer is to receive stocks from CCC for PIK, will the producer be responsible for any transportation charges?

CCC will give title to the commodity to the producer at the designated warehouse free of any charges. Any loanout and/or transportation charges thereafter will be borne by the producer.

112 What happens if the producer fails to use the letter of entitlement at the end of the 5-month availability period?

Producers will receive title to the commodity at the end of the last day of the availability period as follows:

A For producers with outstanding price support loans, CCC will select the loans that are redeemed and made available to CCC for use as PIK compensation.

B For other producers, a warehouse receipt will be issued.--*

*-- 113 Why are producers that do not have a sufficient outstanding loan quantity being required at CCC's option to obtain a 1983 crop year price support loan?

This option would be used very sparingly and only in cases where CCC does not have an inventory of the commodity available. Use of the option would generally benefit both CCC and the producer.

114 If a county is limited to accepting 500 acres in whole base bids and has already accepted 480 acres:

A Can a bid of 50 acres be accepted?

No.

B Can the county committee skip over bids until they reach a bid of 20 acres or less?

No. Bids must be accepted in order with no skipping.

115 How will county ASC committees enforce the protection of tenants and sharecroppers?

To ward off problems, county ASC committees will review the 10-30 percent of the base contracts as time permits. Due to the time limitation on approving whole base bids, county ASC committees cannot delay approving a contract; however, the operator and producers have agreed in the contract not to violate the tenants and sharecroppers provisions.

116 What happens if a landlord removes a tenant or farm operator for the purpose of receiving PIK benefits.

This will not be permitted. Compliance with the landlord-tenant provisions is the responsibility of the persons signing the contract. If time permits the contract to be reviewed, the landlord will be requested to obtain another tenant or operator. If it is later found that the landlord-tenant provisions have not complied with, the terms and conditions of the contract have not been met and liquidated damages will apply.

117 If the tenant or operator leaves voluntarily, will the landlord be required to find replacements?

No; however, statements made to this effect will be confirmed. If time permits the county ASC committee will confirm before the contract is approved. —*

*--118 The contract requires the operator to report crop acreages and conservation use acreage by the final reporting date for the county. When is this?

Final reporting dates for all crops vary by State and in some instances, by county. These dates are available at local county ASCS offices. The final reporting date for conservation use acreage (CUA) is the latest reporting date for any of the applicable program crops having a CUA requirement. An EXCEPTION to this is that CUA on which wheat was planted before January 12, 1983, must be reported by the final date for reporting wheat.

119 How is the cotton paid diversion computed?

A For PIK, the operator may divert an acreage up to 5 percent of the base; however:

1 For whole base PIK, the sum of the PIK acres and the paid diversion acres cannot exceed the base.

2 For the 10-30 percent PIK, the sum of the PIK acres and the paid diversion acres cannot exceed 30 percent of the base.

B For producers not enrolled in PIK, the paid diversion is 0.0667 times the planted acres not to exceed the smaller of:

1 5 percent of the base.

2 The difference between the permitted acreage and the planted acreage.

120 Why was the required conservation use for PIK increased to require the operator to designate additional unpaid acreage (ARP) for conservation use?

In the original computation, the sum of the conservation use acreage, the permitted acreage, the paid land diversion acreage and the PIK acreage was less than the crop acreage base. The acreage difference was free to be planted to other crops which tended to defeat the purpose of our other programs and was not within our intent. For these reasons, the ARP conservation use acreage was redefined by considering the PIK acres as planted acres of the crop. This leaves the conservation use requirement of the regular program unchanged by the PIK program.

121 How does the special PIK compensation work?

Assume the producer is owner-operator of one farm with a 2000 acre corn base and 100 bushel yield. Assume, for example, after allowing for participation in the 10-30 percent of base PIK diversion, equal $100,000 and the conservation use acreage under the acreage reduction and land diversion programs equals 400 acres. The producer can choose between having a 50 percent (200 acre) reduction in conservation use acreage (since the payments will be reduced by 50 percent) or forgoing the reduction to receive PIK for the 200 acres at the rate of 50 percent of the corn yield. --*

*--122 Does it make any difference under the special PIK program whether the farm is in the 10-30 or the whole base PIK program for the crop?

No. Participating in the whole base would reduce the projected deficiency payments for the crop to zero, but the producer could still participate in the special program if the producer's total payments are reduced due to the payment limitation.

123 If the farm has more than one crop, can the producer choose to participate in the special PIK on a crop-by-crop basis?

Yes, so long as the crop is in the PIK program. If the producer participates for more than one crop, the acreage for compensation for each crop will be in proportion to the original requirements.

124 Under the previously announced programs, a producer with more than one farm could allocate the reduction in conservation use acreage among farms, not to exceed the original requirement. Is this policy changed?

No.

125 Does this mean that producers who participate in the special PIK can receive PIK based on the farms to which they allocate the reduction?

Yes. Since producers have the right to allocate the reduction, they must receive the PIK based on the yields of the farm(s) to which the reduction is allocated.

126 Since the PIK acreage is being considered as planted acreage for purposes of computing the conservation use requirement under the acreage reduction program (ARP), is that acreage subject to reduction due to the application of payment limitation?

Yes. No distinction is made between the ARP computed on the planted acreage and the ARP computed on the PIK acreage for the purpose of the acreage reduction due to the application of the payment limitation provisions.

127 Is the PIK eligible for deficiency payments and/or loans?

No. To be eligible for deficiency payments, the commodity must have been planted in the current year and to be eligible for price support loan, the commodity must have been produced in the current year. PIK acreage does not meet either of these requirements.

128 How will proven yields for 1984 be determined for crops participating in the whole base PIK diversion?

The 1983 yield will be assigned by the county ASC committee taking into consideration the actual production from three similar farms in the areas. --*

*-- 129 When and how will the additional compensation for producers with farm-stored FOR loans be determined?

A The amount of the additional compensation will be determined on the PIK availability date.

B Twelve months of advance storage was paid on the loan anniversary date. If, on the PIK availability date, the producer has unearned storage of at least 7 months, no additional disbursement will be made. If unearned storage is less than 7 months, an additional disbursement will be made to increase the unearned storage amount up to 7 months.

130 Will producers participating in PIK with regular or FOR loans be required to make additional loan quantities available to CCC for producers participating in PIK that do not have loans?

No. --*

Chicago Tribune
January 30, 1983
Section 5, page 1, 3

Crop program falls heavily on makers of farm equipment

By Pam Sebastian
Chicago Tribune

NAPLES, Fla.—It rained heavily during the recent farm machinery marketing conference at this gulfside resort, scattering more clouds over managers of the troubled industry.

Industry executives, who are getting used to foul weather of all sorts, rescheduled their golf games around the showers while they adjusted their outlook for the dampening impact of the government's new farm program.

The latest shadow to move over the industry comes in the form of the government's new Payment In Kind [PIK] program, which will pay farmers with grain for idling up to 50 percent of their normal acreage this year. The unusual "crop swap" is aimed at reducing huge government grain surpluses and providing a shot in the arm for depressed commodity prices and farmer income.

Less land in production, of course, means a reduced need for farm machinery.

"The drop in acreage under the PIK program may be difficult medicine to swallow," Peter Perkins, a director of the Farm and Industrial Equipment Institute [FIEI], told members at the three-day meeting.

PERKINS, who is also vice president and manager of Chicago-based FMC Corp.'s food machinery group, said the already-gloomy outlook for farm equipment sales in 1983 was likely to be darkened further by the PIK program.

The results of an institute survey in December, before PIK was announced , called for flat dollar sales and some modest unit sales increases compared with 1982, which itself was a depressed year. Farm machinery sales have been on the downturn since 1979, and manufacturers had hoped for some modest pickup toward the end of this year.

An FIEI follow-up survey this month found members thought that hope was pretty well dashed.

BEFORE PIK, farm equipment makers were looking for a 4.2 percent increase in sales of over 40 horsepower tractors to 80,650 units and a 13.3 percent pickup in combine sales to 17,000 units this year. Not any more. The post-PIK survey now calls for a 2 percent drop in large-tractor sales and a 1.3 percent drop in combines.

While the FIEI members aren't

Continued on page 5

Farm gear

Continued from 1st Business Page

happy about PIK's short-term implications, many admit it may be just what the doctor ordered to set a floor on declining farm income and the side-effect slump in machinery sales. It's also generally acknowledged that other farm suppliers such as seed and fertilizer producers will be affected more severely than the equipment makers.

Still, PIK "is going to affect industry sales modestly in 1983," said Boyd C. Bartlett, Deere & Co. senior vice president of farm and consumer product operations in the U.S. and Canada, who also sits on Deere's board. "I believe it to be a good thing generally for farmers if it addresses the problem of huge stocks of grain, and whatever is good for the farmer in the long run is good for us."

One industry analyst attending the meeting pointed out that "this year was going to be a disaster no matter what the farm machinery makers do." The farm equipment makers are burdened with a 12-month inventory and have been hawking deep discounts to try to move those goods. "At least now there's a mechanism put in place to try to liquefy the marketplace," he said.

THE MECHANISM is PIK, which offers farmers certificates for government-stored surplus grain in payment for taking up to 30 percent of their land out of production. The new program requires participation in the existing standard reduced-acreage program, which calls for a 20 percent acreage cutback, half of which is compensated with cash payments, so a farmer paricipating in PIK could idle as much as 50 percent of normal cropland.

Signup for PIK, which is available to farmers who grow wheat, corn, grain sorghum, cotton and rice, started last week and continues until March 11. The Agriculture Department hopes the program will idle 23 million acres and whittle government-owned feedgrain stocks, which stand at some 107.4 million metric tons, or about 49 percent of capacity.

The agency also hopes to knock down the cost of farm programs by as much as $5 billion in the next three years by cutting its costs of storing grain and cotton and by reducing cash payments to farmers. In fiscal 1982 the Agriculture Department spent a record $12 billion on farm aid, half of which was in the form of crop-secured loans.

SOME CRITICS have called PIK a Band-Aid approach to the crop surplus problem, citing a more effective export policy as a better long-term solution to oversupply. Some economists believe PIK could be extended in some degree for another year or two in order to reduce stocks more effectively. Whether PIK is successful in reducing the current surplus and firming commodity prices and farmer income in the short-run depends on the number of farmers who sign up and the amount of land they agree to idle.

That's one of the unknowns the farm machinery makers are anxious to pin down. So far, they say they're picking up signs of strong farmer support from talking to their dealers, particularly in Iowa and Illinois, the largest corn-producing states.

Another question falls on the timing of

Peter Perkins

crediting the swapped grain and the farmer's attitude on year-end tax planning. A farmer gets title to the grain at harvest time and can sell it then or defer the move for months under the government loan program. The prospect of higher income combined with declining interest rates could yet cause farmers to make some equipment purchases this year, some farm machinery makers hold. If not this year, the stage would be set for increased buying in 1984 and beyond, they believe.

FOR THOSE reasons, many FIEI members believe short-term negatives will be mitigated by long-term positives.

"I don't know whether we'd have unanimous agreement in the company on that question," said Lavon S. Fife, International Harvester's manager of economic analysis and forecasting. "I think [PIK] is a step that had to be taken in order to get a turnaround situation underway, and so with that in mind, we have to agree it's a good program.

"Even though it could put a slight damper on the industry in 1983, it would be more than compensated in later years in terms of turnaround time."

He acknowledges there are some risks associated with PIK that will be unclear until the full level of farmer participation is known. He also holds that other non-PIK factors, such as declining interest rates and fuel costs that further lower farmers' operating expenses, may help offset any adverse impact from PIK this year.

Lower interest rates reduce the attraction of alternate investments such as money market funds and make tax benefits of accelerated depreciation on capital equipment like a $100,000 combine more appealing, Fife said.

"Many farmers who are sharp in their analysis may want to buy equipment at a price that will probably never be available again and take the depreciation," he said.

Tax Questions May Undercut PIK Program

By Ward Sinclair
Washington Post Staff Writer

A series of possible federal tax rulings adverse to farmers could undercut the Reagan administration's plan to prop up the agricultural economy by giving farmers surplus grain in return for not planting crops this year.

Agriculture Secretary John R. Block and farm-state lawmakers are pressuring for clarification of the income- and estate-tax questions before March 11, the signup deadline for the government's payment-in-kind (PIK) program.

Their concern is stirred by the possibility of Treasury Department rulings that could discourage farmers from taking part in the PIK program, which is aimed at reducing surpluses and raising farm income.

Legislation designed to clear up the tax questions has been introduced in the House, and more is being readied in the Senate, but Senate Finance Committee Chairman Robert J. Dole (R-Kan.) said he considers the situation "an emergency" that will not be resolved before the March 11 cutoff.

"Farmers are not signing up for the payment-in-kind due to the tax question. A lot are holding back," Dole said.

Dole has his staff at work on a bill, but he acknowledged that the tax-originating House Ways and Means Committee has first jurisdiction. Its chairman, Rep. Dan Rostenkowski (D-Ill.), has indicated that his first priority is Social Security legislation—not a PIK fix.

House Agriculture Committee chairman E (Kika) de la Garza (D-Tex.) and the ranking Republican, Rep. Edward R. Madigan (Ill.), have urged Rostenkowski to act on an "urgent" basis to resolve the tax dilemma so that farmers will be encouraged to get into the PIK program.

Reps. Tom Harkin (D-Iowa) and Richard J. Durbin (D-Ill.), Agriculture Committee members, introduced a bill last week that would protect PIK participants. "Failure to clarify this could greatly reduce participation," Durbin warned.

The tax questions surfaced first at a recent Agriculture subcommittee hearing chaired by Sen. Thad Cochran (R-Miss.), who, along with Sen. Walter D. Huddleston (D-Ky.), sounded the first alarms and urged Block to lean on the administration to resolve the doubts.

The major question involves a Treasury Department policy aimed at requiring farmers to pay tax immediately on the free grain they get from the government, rather than allowing them to defer payment until they actually sell it—as is the case with grain they produce.

Such a ruling could put some farmers in an economic vise, paying tax on 1982 crops sold this year as well as tax on the free grain, rice or cotton they would receive from the PIK program.

Treasury officials last week said they will support legislation directing a change in the policy, but they left open the possibility that, without legislation, the policy would be enforced as envisioned originally.

A second tax cloud hanging over the PIK program involves a Treasury interpretation of another law, which provides estate-tax breaks for family farms that are operated principally as risk-taking farms.

The Treasury Department has indicated that it would consider such farms in the PIK program as not operating—and thus not eligible for the tax breaks. The department also said it would back away from that position if directed to do so by legislation.

Cochran said yesterday that he thinks the doubts will be cleared by the administration before PIK enrollment is jeopardized seriously. But he said that as long as the doubts remain farmers may be reluctant to get into the program.

SPECIAL REPORT

$22 Billion Fails To Spell Relief for Nation's Farmers

MAGGIE STEBER

Outraged taxpayers, harried lawmakers, indignant shoppers, embittered farmers—they're all demanding radical changes in the once proud U.S. farm system.

American agriculture, long praised as the world's most powerful food-producing machine, rattled and wheezed through the summer of 1983 in need of a total overhaul.

Almost everyone—members of Congress, bankers, Main Street merchants, supermarket shoppers and above all farmers themselves—agrees the system is badly out of kilter.

For years, even while the Germans overtook the U.S. in quality of cars and the Japanese captured much of the electronics industry, farming remained the one thing the U.S. could do better than anyone on earth. Yet today—

- Defying logic that says efficiency means bigger profits, many of the 2.4 million U.S. farmers are teetering on the brink of bankruptcy because they are too productive. Thousands of them, once the personification of rugged individualism, survive only by leaning on federal handouts indistinguishable in the eyes of some from welfare.
- Government subsidies have multiplied five times in three years, reaching the point where in 1983 farmers will get nearly as much money from Washington as they get from their crops.
- At a time when millions around the world go to bed hungry—if they are lucky enough not to be starving—government storage facilities are bulging with so much surplus food that farmers are being paid not to grow more.
- Food shipped abroad, while still the cornerstone of U.S. exports, has plummeted under pressures from world recession, a strong dollar and rich global harvests to some 145 million metric tons this year, the lowest since 1979.

"American agricultural policy," declares Representative Barney Frank (D-Mass.), "is out of control."

Bumper Crop of Subsidies

One measure of the nation's farm problems is the amount of money the government is spending to keep food and fiber producers in business.

Crop price supports and other federal subsidies will cost taxpayers a record 21.8 billion dollars this year, nearly double the 11.6 billion of 1982 and more than five times as much as in 1981. In addition, farmers could receive up to 12 billion dollars' worth of wheat, corn, cotton and other commodities through the Reagan administration's controversial payment-in-kind program. The PIK plan gives farmers crop surpluses in exchange for taking some of their acreage out of production.

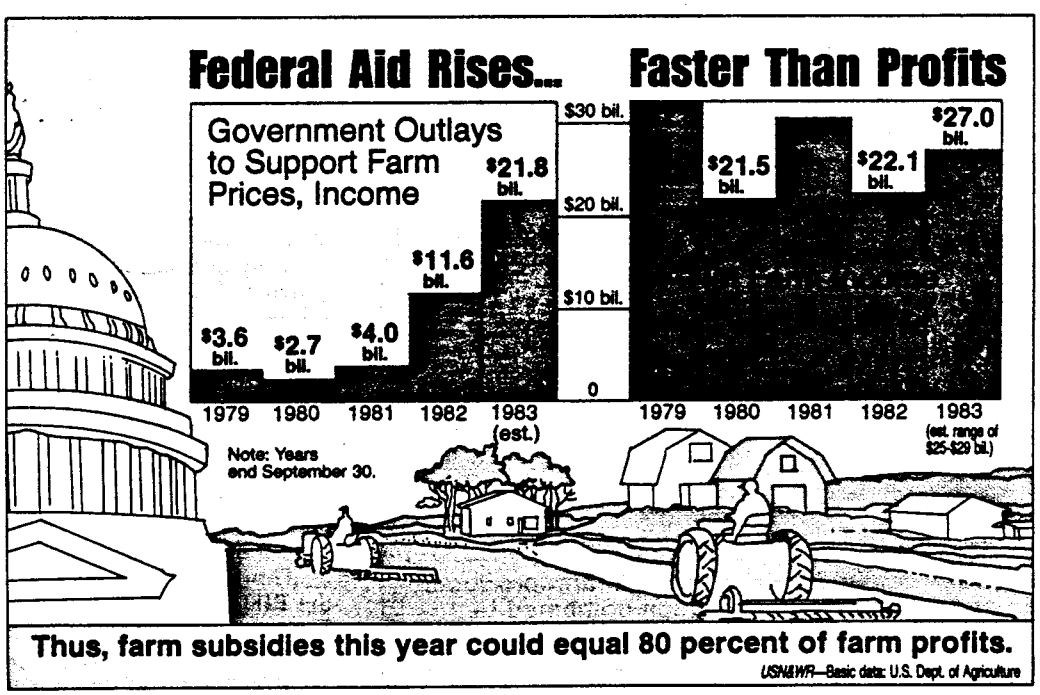
The soaring cost of farm subsidies has helped wreck White House plans to reduce the record federal deficit. Even Agriculture Secretary John Block warns: "The government cannot afford to continue to absorb these tremendous expenditures in the face of large deficits."

Opposition also is building on Capitol Hill, where pressure to cut deficits is unraveling the old rural-urban coalition in which rural lawmakers voted for welfare programs in return for urban members' support of farm subsidies.

Asserts Senator Claiborne Pell (D-R.I.): "When we are asking our citizens to tighten their belts, I cannot support the payment of massive subsidies to the agricultural industry nor the cuts in food-stamp benefits for those who need them."

PIK: A Program Gone Sour

Nowhere is the failure of American farm policy more evident this summer than in the PIK program, which has



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idled some 80 million acres of land previously planted in cotton, wheat, corn, rice and sorghum.

The Agriculture Department created PIK in early 1983 in a desperate effort to pump money into the badly ailing farm economy. Government economists predicted it could be implemented at little cost to taxpayers. The theory: Instead of being paid money not to grow crops, farmers would be paid in surplus commodities. That would cut the government's cost of storing surplus commodities as well as boost grain and cotton prices above the level where the government would be obligated to buy even more crops. Farmers would benefit, too, from savings on seed, fertilizer, fuel, pesticides and labor that would have been needed to plant the idled acres.

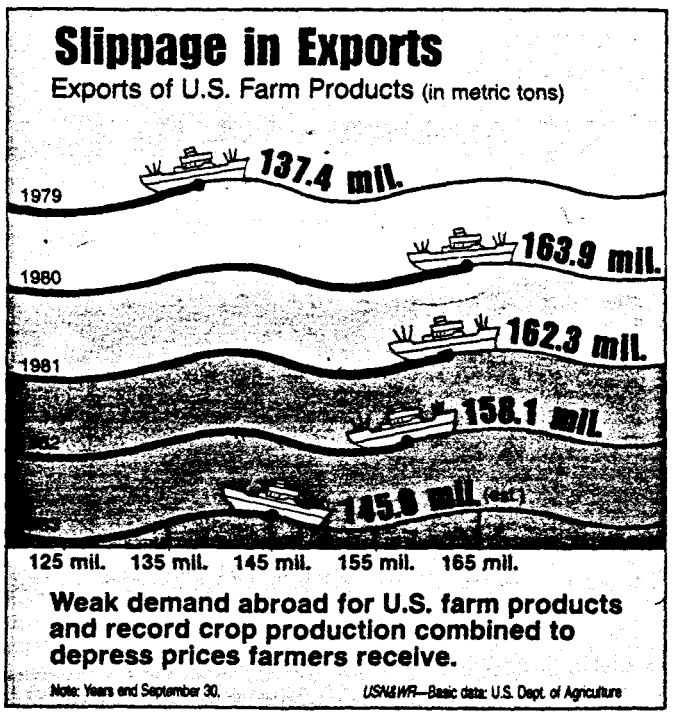
PIK, unfortunately, is not working out that way. Costs are soaring far beyond the most pessimistic government assessments. Moreover, the program is funneling most of the money into the coffers of big farmers, some of whom will receive more than a million dollars' worth of commodities.

Grain farmers have been helped at the expense of livestock and poultry producers, who had hoped to benefit from low costs for feed grains. Merchants who sell farm implements, seed, fertilizer, pesticides and other goods are struggling to survive an abrupt slowdown in sales of the merchandise that farmers no longer require for their reduced operations.

The real cost of the PIK program cannot be determined until Agriculture Department bookkeepers figure out how much the government would have received if it had sold the surplus crops that farmers will receive, minus savings on storage. But the value of the commodities given to farmers is expected to run as high as 12 billion dollars, not counting administrative costs.

Beyond that, it is growing increasingly clear that PIK will not even make much of a dent in the nation's food surplus unless the drought now plaguing parts of the Midwest persists and spreads.

As in past land set-aside programs, farmers simply are taking their worst acreage out of production while applying more fertilizer and pesticides to the remaining land. Record wheat yields of 40.7 bushels an acre, for example, are expected to make the 1983 harvest the third-largest ever despite an 18 percent reduction in acreage.




DAVID R. FRAZIER—BLACK STAR

Mountains of surplus grain are expected to remain after the 1983 harvests, despite sharp cutbacks in acreage.

An Unforeseen Headache

PIK also is turning into a bureaucratic nightmare. Far more farmers than anticipated agreed to idle their land, forcing embarrassed Agriculture Department officials to admit that there is not enough cotton or wheat in storage to meet their obligations. Surplus stocks remain enormous, but most of them are in farmers' hands and not in government warehouses. Solution: Foreclose on farmer-held surpluses and force some farmers to turn over part of their current crop at the government-supported price level.

Angry cotton farmers protested the idea of being required to sell the government cotton at 55 cents a pound while the current market price is about 70 cents. Congress bailed them out in late July—at taxpayer expense. In effect, farmers now will be able to get as much as 77 cents a pound by selling last year's surplus to the government.

The *Washington Post* reported on July 28 that in California, nearly 50 farms each will receive a million dollars or more worth of free cotton under the PIK program. Some of the farms are owned by corporate giants such as Bangor Punta, Tenneco, Chevron USA, Shell Oil Company and Superior Oil Company.

The newspaper also reported that PIK's beneficiaries include Everett "Bud" Rank, chief administrator of the PIK program and head of the Agriculture Department's Stabilization and Conservation Service. Rank and four partners in a Fresno County, Calif., operation will receive 1.3 million pounds of cotton, worth slightly more than 1 million dollars, in return for idling 2,163 acres. Rank insists his partners signed up for the program without his knowledge and says there is no conflict of interest.

The Agriculture Department defends PIK payments to large farmers, explaining that any effort to reduce crop surpluses must include big operators to be successful. Four percent of the nation's farmers account for nearly 50 percent of total cash receipts.

"The incongruity of having farmers growing wheat for the PIK program bothers a lot of people," reports Clayton Yeutter, president of the Chicago Mercantile Exchange and a former assistant secretary of agriculture.

Farmers themselves have mixed feelings about PIK. Says

Bitter feelings are expressed by farmers forced to sell equipment, even entire farms, to pay overdue loans.

Farmer will harvest corn from one field, get surplus crops for idling the adjoining field under the PIK program.

Don Horton, Illinois coordinator for the American Agricultural Movement, an organization spawned by the current trouble: "I don't blame the city people for being mad. But they should be mad at the government, not at the farmer. The farmer doesn't want programs like PIK. We want to get our money from the marketplace, not from the government."

In California's Central Valley, PIK came as a bonanza for about 2,000 farmers whose land remained flooded well into the summer. "To be paid for not growing cotton on underwater land is really something," marvels one King County grower. "I couldn't have planted this year even if I'd been wearing scuba gear."

Hard Times Down on the Farm

Despite its unpopularity, the PIK program was born out of desperation. It was implemented to combat the worst economic disaster in agriculture since the Dust Bowl days of the 1930s. Although the Agriculture Department in early August sharply raised the estimate of 1983 farm net income to 27 billion dollars, it still would fall far below the record 33.4 billion of 1973 and when adjusted for inflation would rate as the second lowest since the Depression.

The drop in income, combined with high interest rates and increasing operating costs, has buried farmers under a mountain of debt totaling 218 billion dollars, up from 141 billion just five years ago.

Most of those who have gone bankrupt have been younger operators mortgaged to the hilt and counting on constantly rising land values to provide loan collateral—values that have declined for the last two years in a row. But some older and more cautious farmers are hurting, too.

"I didn't splurge on big, fancy machinery," says Glen Pembleton, 52, a dairy farmer near Racine, Minn. "I never stuck my neck out." Yet Pembleton, who owed nearly $500,000, was forced to sell 400 acres of his land at a public auction August 1. "At least I got to keep the home 80," he notes. "I could have lost the whole kit and caboodle. If that happened, I don't know what I would have done."

William Lamb of Louisville, Ga., is considering giving up farming after 21 years. He already has been forced to sell 271 of his 1,000 acres and worries that he may lose his home. Lamb, who says he has not made a profit since 1979, observes: "When you get to the point where you don't want to get up in the morning, you can't be a farmer."

Many are hanging on by taking part-time jobs or selling some of their assets. Wayne Turner of Marlow, Okla., was named Outstanding Young Farmer of 1981 by the state Junior Chamber of Commerce. Today he drives a truck to make ends meet. "I have shown $4,000 in income the last couple of years on $100,000 in gross earnings," he reports. "If it continues like it is, you'll see the family farm go out."

While some argue that family farms are an essential part of American life, others contend that if small farmers cannot compete, they should be absorbed by bigger and more-efficient operators.

The crunch, however, also is discouraging many young people from going into farming. Last year the number of college undergraduates pursuing agricultural degrees dropped 8.6 percent. Master's-degree candidates declined 12 percent; Ph.D. aspirants, 5 percent.

Joseph Kunsman, associate dean of the University of Wyoming's College of Agriculture, observes: "Agriculture today is highly technical and needs to be run by technicians. Among the implications of this situation are more-expensive food and a loss of trade leverage."

Main Street Blues

Merchants and small industries serving rural areas are being devastated this year by the combination of recession and the PIK program.

"PIK is fine for the farmers, but it puts the implements dealers in worse shape," reports Frederick Cannon, agricultural economist for the Bank of America.

For Scotty McCoy, president of McCoy Farm Service in Davisboro, Ga., PIK is a disaster. Not only has the program reduced his sales of seed and fertilizer, but the contract for distributing PIK commodities went to a large farmer cooperative. As a result, his elevator business plummeted 30 percent, a loss in revenue of about $150,000.

Says Bernie Schaaf, manager of the Farmers Union Oil Company in Glendive, Mont.: "All of us business people are running a little scared, because we're completely dependent here on agriculture. Our bread-and-butter customers aren't coming through for us, so we don't know what to do next."

The Bitter Harvest

Hard times are going beyond economic impact and are tearing at the social fabric of rural America. Sociologists

HERMAN J. KOKOJAN—BLACK STAR

Rows of unsold farm machinery are product of the recession, high prices and PIK program that held down production.

report that farmers, once believed to be immune from many of the pressures that afflict urban dwellers, are increasingly falling victim to suicide, alcoholism, drug abuse and family problems.

Craig Mosher, director of the Tama County, Iowa, Mental Health Center, cites an alarming rise in suicides. "Our rural, central Iowa county has the highest suicide rate in the state—2½ times higher than the state and national average," he says. "In fact, the six highest suicide rates among Iowa's 99 counties occur in rural counties."

Larry and Phyllis Simpson of Malta, Mont., have been trying to sell their farm to avert bankruptcy. She explains why she sought counseling: "It's your life, and all of a sudden it's all blown up. This is my home. I've been here 20 years, and I just couldn't handle the thought of foreclosure. I can't talk about it, because I just start crying."

Says Don LaPlante, a psychologist in Glendive, Mont.: "We've actually had people come in for counseling on whether they should go into the PIK program. Typically, these people have never come here. They've been able to figure the pros and cons themselves. Some of these guys are so depressed that their wives literally have to get them up in the morning and put them on the tractor, because they don't see any use in it."

In a public mental-health clinic in Dothan, Ala., Dr. Walter Jacobs is seeing a mounting stream of farmers and their wives. He reports: "We are getting farmers with a great deal of stress—financial worries and just the complexity of modern farming. It exacerbates all existing problems such as alcoholism and family conflicts. Many of the wives are afraid their husbands are suicidal."

Rise of the Militants

As economic and psychological stress grows, farmers are turning increasingly militant in their political outlook. Groups such as the American Agricultural Movement, the National Farmers Organization and the North American Farm Alliance have sprung up and taken the lead in organizing tractorcades, blocking farm foreclosure sales and holding marches and demonstrations.

Some members of the American Agricultural Movement in Colorado have enrolled in seminars on how to make crude pipe bombs. Some members attended a "survival school" in Kansas where students were taught the use of poisons and explosives, knife fighting and hand-to-hand combat. Leaders insist, however, that the group is nonviolent. "I left the American Agricultural Movement because it's gotten too tame," says Keith Shive, head of the Farmers Liberation Army in Kansas. "AAM's a nice social club, but when we drove 665 tractors to Washington, D.C., and when we removed 75 truckloads of grain from an elevator in Missouri right in front of five sheriffs, that made people stand up and take notice."

Most farmers, however, still believe mainstream politics is the best way to achieve their goals. In some areas, they are joining consumers, environmentalists, nuclear-freeze advocates and unions to achieve common goals.

"There's a place for demonstrations and a place for working within the system," declares Larry Gallagher, executive director of the Illinois Farm Alliance. "Now we're involved in political-action committees—donating funds to certain candidates, lobbying for certain legislation."

In Minnesota, a coalition of rural and urban groups called Coact persuaded the State Legislature to pass a moratorium on mortgage foreclosures. North Dakota farmers last spring won a lawsuit that stopped the Farmers Home Administration from foreclosing on delinquent loans without first providing the borrower with a notice, a right to a hearing and other due process of law.

Despite their small numbers—less than 3 percent of the population—farmers are convinced they can influence the outcome of next year's election. Republican officials worry that President Reagan and the rest of the GOP ticket will take a beating in rural areas unless things improve rapidly.

Says Texas Agriculture Commissioner Jim Hightower: "The 1984 election year could be to agriculture what 1896 was to monetary policy. The militant movement period has washed past us. Farmers are now ready to be a political force."

The Search for a New Policy

Out of the turmoil spreading across rural America is a growing consensus that the U.S. needs a new, long-range farm strategy. The current program, now 50 years old, grew out of the Depression in which economic hardship and drought drove thousands of farmers from the soil.

That legislation has evolved into two contradictory and competing farm policies. On one hand, the Agriculture Department—through its price supports, research, extension service and credit operations—encourages farmers to maximize production. At the same time, the government uses production and acreage controls and stockpiling to hold down supplies reaching the market.

Saying the nation needs a new farm policy and agreeing on one are two different things. Agriculture Secretary Block recently staged a two-day "agricultural summit" in Washington attended by 75 of the nation's top farm, business, labor and foreign-trade leaders. Net result: Much replowing of old ground on finding new foreign markets, freezing target prices and limiting subsidies to big farmers—but nothing new.

Yet the search goes on. Senator Roger Jepsen (R-Iowa) is holding a series of meetings across the country to solicit views on farm programs. The Democratic National Committee is planning a series of farm-policy forums. The Agriculture Council of America, an agribusiness group, is moving ahead with plans for a national forum on farm policy.

The main problem is that American agriculture is so huge and diverse. What is good for the grain farmer may be disastrous for livestock and poultry producers. Cotton and tobacco farmers have little in common with food growers. Dairy farmers and sugar growers each have special problems.

Farmers themselves cannot decide whether they want

the government to leave them alone or support them. "They want insurance against low prices while still being able to take advantage of high prices," says Bruce Gardner, a University of Maryland expert on agriculture problems.

Many farmers blame their current plight on the Russian grain embargo imposed by President Carter in 1980 in response to the Soviet invasion of Afghanistan. The embargo came at a time when farmers were encouraged to plant "fencerow to fencerow" to meet burgeoning export demand and provide food for a hungry world.

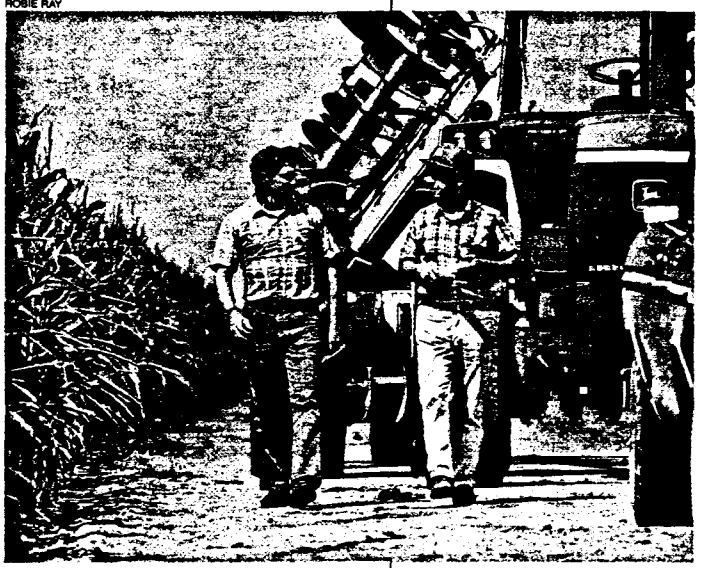
Critics were placated somewhat by the recent signing of a new agreement committing the U.S. to sell the Soviets from 7 to 9 billion dollars' worth of grain per year over the next five years, even if it means shortages in this country.

Still the World's Best

In coming up with solutions to the problem, lawmakers worry that they might unwittingly wreck what, despite all its troubles, remains the world's best agricultural system. The average U.S. farmer produces enough to supply 78 persons, compared with 53 in 1972. Americans spend a smaller portion of their income for food than anyone else in the world—an average $16.10 for every $100 in take-home pay.

The U.S. Conference of Mayors recently identified hunger "as the most prevalent and the most insidious" problem facing the nation's cities. Yet government stockpiles of surplus food include 1.6 billion pounds of dried milk, 982 million pounds of cheese, 567 million pounds of butter, 3.4 billion bushels of corn and 1.3 billion bushels of wheat—to say nothing of peanuts, honey and soybeans in a stockpile valued at 24.7 billion dollars. Problem: How to distribute that to the poor without cutting market prices and forcing government purchase of still more surplus production.

ROBIE RAY



North Carolina's Prulean Farms is big-business agriculture.

America's Foundation

Why are U.S. political leaders so concerned about the plight of such a tiny segment of society?

Though their numbers are few, farmers are the backbone of the nation's largest industry. Total assets exceeding 1 trillion dollars make it bigger than the automobile, steel and housing industries combined. The 22 million Americans working in some phase of agriculture, from growing food to selling it at the supermarket, comprise the country's largest labor force. Agricultural exports are the biggest earners of foreign exchange.

Warns Representative Jamie Whitten (D-Miss.), chairman of the House Appropriations Committee: "When setting national priorities, we must bear in mind that agriculture is the foundation of our economy. If the foundation goes, everything goes." □

By KENNETH R. SHEETS with JOHN COLLINS of the Economic Unit, MICHAEL BOSC in Chicago, JOANNE DAVIDSON in San Francisco, LINDA LANIER in Atlanta, SARAH PETERSON in Houston and GORDON WITKIN in Denver

When Wall Street Puts On a Straw Hat

CRESWELL, N.C.

Rows of corn stretch as far as the eye can see—an idyllic example of American agriculture.

But this is not your typical farm. Prulean Farms is an 83,000-acre giant owned not by a sunburned tiller of the soil but by the stockholders of Prudential Insurance Company and McLean Trucking.

At a time when many farmers are desperately scrambling to survive, major investors such as the insurance industry see a bright future for American agriculture. Wall Street's Salomon Brothers ranks farmland as the eighth-best investment over a 15-year period, producing a 10 percent return to beat out Treasury bills, housing, stocks and bonds. Banking on that belief—

- Prudential in recent years has bought more than 750,000 acres of farmland in 16 states.
- Agricultural Capital and Real Estate Account, a pension fund managed by John Hancock Insurance, has purchased 13 farms totaling 5,708 acres since 1981.
- Metropolitan Life Insurance has invested in seven joint-venture farming projects, mostly orchards and vineyards in Florida and California.
- Equitable Life Insurance of Iowa developed a 19,400-acre rice farm in Morehouse Parish, La.
- Travelers Corporation bought 12,000 acres of farmland in Arkansas, Illinois, Mississippi and Ohio.

Insurance executives claim that farmland offers excellent investment opportunities, because agriculture is the one industry in which the U.S. is almost certain to be a world leader for a long time. They foresee global hunger doubling demand for American farm products in the next 10 to 15 years.

The flurry of insurance-company investment in farms and ranches is generating alarm among some farmers and sociologists, who see the entire structure of rural life threatened by the disappearance of small family farms and their replacement by absentee landlords. Some residents of this North Carolina coastal region fear that huge operations such as Prulean will ruin the environment as well as depersonalize what has always been a friendly, casual society. Prulean officials insist they are helping develop the region, not harm it.

Nonfamily corporations and partnerships own only about 6 percent of the nation's farmland. Yet people are worried to the point where at least 12 states—Nebraska, Iowa, Kansas, Minnesota, Missouri, North Dakota, Oklahoma, South Carolina, South Dakota, Texas, West Virginia and Wisconsin—levy special taxes or fees or impose other restraints on such operations.

By DOUGLAS C. LYONS

Farmers Are Taking Their PIK

Mixed results from a plan to aid growers who don't grow

Across America last week, the nation's farm land had a bizarre new look. In Kansas, large brown patches of stubble-studded earth interrupt shimmering golden carpets of ripening winter wheat. In Nebraska, idle center-pivot sprinklers stand like outsize scarecrows over many once verdant cornfields. In California, more than half of the acreage normally devoted to rice lies uncultivated. The cause of the crop cutback is not drought or disaster but a new federal program that rewards farmers, partly in cash and partly in grain and cotton, for taking large tracts of land out of production. Called payment in kind (PIK), the program aims to invigorate the wilted farm economy by reducing bin-busting surpluses, driving up depressed prices, cutting Government costs for farm subsidies and grain storage, and saving farmers production expenses. Alas, at mid-season the results of the ingenious new program are mixed.

HORAN—PICTURE GROUP

Between a wheatfield and a fallow place: Kansas Farmer Lester Ewy views payment-in-kind plot

Some dwindled stockpiles, some higher prices, but complaints about poor administration.

PIK prompted farmers to remove from production 82.3 million acres of wheat, corn, sorghum, cotton, barley, oats and rice, amounting to 36% of all eligible crop land. The U.S. Department of Agriculture estimates that farmers planted only 60.1 million acres of one major crop, corn, down 27% from last year and the lowest level since 1878. Even with the acreage reductions, however, the nation's winter-wheat crop, planted last September and now in the midst of being harvested, is estimated at 1.94 billion bu., the third best crop ever and down only 8% from last year. Farmers in 13 states will bring in larger wheat crops than last year. The reason: record yields, a predicted average of 40.7 bu. of wheat per acre nationwide, up more than 10% from 1979. Says Kansas Farm Bureau President John J. Armstrong: "Yields are looking so good out here that we'll harvest nearly as much winter wheat in Kansas as last year on 1.5 million fewer acres."

As a result, wheat stockpiles are actually expected to grow this year. For every other commodity, however, PIK appears to be succeeding in drawing down the enormous surpluses. The USDA predicts that the unsold carryover of feed grains, mostly corn, may dwindle from 3.4 billion bu. to 2 billion bu. by the end of the year, a reduction of about 40%. Rice stocks are expected to be cut by almost half, from 68.2 million cwt. (hundredweight) to 36.3 million cwt. "Without PIK, we would have had a market glut like we've never seen," says Agricultural Economist Barry Flinchbaugh of Kansas State University. "It would have been a hell of a mess."

Prices have inched up since PIK was announced last winter, but not necessarily as a result of the program. Corn jumped from $2.36 in January to $3.15 this month, primarily because farmers held so much of their 1982 crop off the market that buyers had to bid up the price to get the available supplies. Cotton prices have risen nearly 10¢ per lb. this year, mostly because of bad weather. Eventually, however, reduced supply should strengthen prices and put more money in farmers' pockets. "The confidence level is better," says Tractor Dealer Bob Kennon of Tifton, Ga. "People are more optimistic about the fall harvest than they've been in two years."

When farmers signed up for PIK last spring, they received vouchers redeemable at harvest time for grain from Government-controlled storage. The amount varied from 80% (in the case of corn) to 95% (in the case of wheat) of what they would normally produce on their idled plots. After redeeming the vouchers, the farmers are free to sell the gratis grain or use it as livestock feed. "PIK sure looked sweet to me," says Kyle Bauer, who idled 700 acres of his 1,700-acre farm in northeastern Kansas. "I can give my ground a rest and still get a return on it."

Many farmers, however, are piqued with PIK. They cite poor administration, the possibility of getting paid with inferior grain and a timetable that sometimes forces farmers to sell at deflated prices. "The biggest concern I have is the quality of corn they are shipping in," says Alabama Farmer Bill Sanders. "Some of it is as much as two or three years old. I may have to buy hogs to get rid of it."

Texas rice farmers will receive medium-grain California rice for their PIK entitlements because there is not enough of the more marketable long-grain variety to go around. Worse, the shipments will arrive at the beginning of August when the market is flooded with rice. Cash-hungry farmers will have to sell at the lowest price of the season. "These old boys need greenbacks right away," says Rice Farmer Wayne Wilber. "They won't get nearly as much as they would if they got their entitlements later in the season."

Despite PIK's problems, the Government insists the program will save taxpayers $9 billion in storage costs and other outlays in fiscal 1984 through 1986. The savings pale, however, next to the estimated $21.2 billion that will be spent this year on farm price supports, five times the outlays of fiscal 1981. Says Agriculture Secretary John Block: "The costs that we are looking at today really are unacceptable." In preparation for redrafting the current farm bill, which expires in 1985, Block last week convened a two-day, closed-door "summit" of farm and agricultural business leaders to thrash out long-range methods for cutting costs and surpluses and aiding farmers. High on the agenda: the nation's sinking share of farm export trade, resulting from a strong dollar, world recession and stiffer competition from overseas.

For the short term, the Administration is pushing Congress to freeze "target prices" (the prices that determine the amount of a farmer's cash subsidy) for grain and to lower dairy price supports. Until Congress agrees, Block is delaying the announcement of the specifics of the 1984 PIK program for wheat. In the meantime, PIK appears to be the only game in town. "This miserable PIK program is designed to keep the poor buggers in farming alive," says Scott Hanson, administrator of the Washington Wheat Commission in Spokane. "Until someone comes up with a better idea, we're stuck with it." ***—By Susan Tifft. Reported by Gisela Bolte/Washington and Lee Griggs/Chicago***