PIK program: a hoax for farmers, and a threat to U.S. food supplies

by Cynthia Parsons

The U.S. Department of Agriculture (USDA) announced March 22 that 57 percent of corn and sorghum farmers, 62 percent of wheat farmers, and 95 percent of cotton and rice growers have signed up for the Payment in Kind (PIK) program launched by the Department last December. The PIK program will pay the farmer in existing grain, corn, cotton, and rice for *not* planting these crops in 1983, with the double purpose of both reducing agricultural surpluses in storage and reducing the cash farm price supports paid to the farmers by the government by $1 billion in 1983, and by $2 to $3 billion in 1984 and 1985.

Although Agriculture Secretary John Block announced his "delight" in the farmer's rush to enter his PIK program, the future of the program is uncertain. "Phase I was easy," explained USDA's PIK economist Ray Voekel. "Phase II, providing the payment in kind, is a little more difficult."

The government owns only 10 percent of the 4 billion bushels of stored grain, most of which is committed for aid and emergencies and has neither the large amounts of commodities needed to pay the farmers nor the budget to purchase what would be necessary. Given that the PIK program was designed to reduce government cash outlays, under current conditions it will be impossible to carry out!

One of the most serious results of the program is that the USDA cannot predict how acreage reductions will affect the size of the 1983 crop. Even if farmers leave 68 million acres unplanted this year (see table), they are generally taking their lowest-yield acres out of production, and there are indications that they will be attempting to maximize yields from the acres they plant to cash in on the expected higher prices.

For the first time in over 40 years, the Department of Agriculture, whose projections for crop production are usually accurate to the bushel, will not be able to forecast exactly how much grain will be produced until July. This situation will give the international commodity cartels and futures dealers an open field for speculation, and, if the price support programs are dismantled, a virtual monopoly over world commodity prices.

Although an immediate food shortage will not develop even if the full 82 million acres slated for set-aside are left unplanted, some agricultural economists are estimating that corn production will be down over 3 billion bushels, wheat half-a-billion bushels, rice 40 million hundredweight, and cotton 3 billion bales. The USDA estimates that stocks will be reduced nearly 10 percent for wheat and 45 percent for corn by the fall of 1984.

The United States will be able to grow enough to maintain current domestic and export orders, but the real problem is to preserve the farms for future production. PIK is dangerous because it destroys the pricing mechanisms which have guaranteed that farmers will be able to maintain consistent levels of production over successive years since they were established in the 1930s, and have been a prerequisite for making U.S. agriculture the most productive in the world.

How it works

Payment in Kind is a voluntary program intended to augment the other set-aside programs, further reducing wheat,

1983 ARP, PDP, and PIK enrollment

	National total base acreage	Total base acres enrolled	Percent total base acreage	Percent of farms enrolled	Total acres diverted*	Percentage total basse acreage
Corn/sorghum	101,059,533	78,824,412	78.0	57	39.4	39
Wheat	90,806,013	78,308,888	86.2	61.8	32.1	35
Cotton	15,446,691	14,607,249	94.6	85.3	6.8	44
Rice	4,000,586	3,835,417	95.9	96	1.7	43

*Rounded millions

Total PIK: 68 million acres (13.3 million acres come under the paid diversion program)

Total acreage reduction: 82 million acres will not be planted in 1983.

Source: USDA

sorghum, corn, and cotton production. PIK is intended to reduce government expenditures for storage and deficiency payments for surplus grains.

Traditionally, price supports protect the farmer when market prices are low by having the government intervene and make up the difference between actual prices and a target price set by Congress. When prices are low, or the farmer cannot sell his grain, he can store it in the Farmer Owned Reserves (FOR) until prices rise. When grain is put into the reserve, the farmer contracts it to the government, leaving the grain there for the length of time of the contract. In return, the farmer receives a cash loan repayable with interest.

The PIK plan grants farmers surplus stocks of government-owned commodities in return for agreeing to reduce their crop production. The only specific limit on the proposal is that no more than 45 percent of the base acreage in any one county can be taken out of production. Farmers participating in the PIK program must also comply with the Acreage Reduction Program (ARP) and the Paid Diversion Program (PDP), the two other federal set-aside programs.

The ARP and PDP programs require feed grain and wheat farmers to limit the acreage devoted to those crops in 1983 to an amount at least 20 percent less than the farm's base acreage for those crops. Farmers who plant at that upper limit must also devote an acreage equivalent to 20 percent of the base acreage to approved conservation uses. For each acre diverted to conservation, farmers will receive an amount of grain that is equal to a specified percentage of the farm's per-acre yield: 80 percent for corn and 95 percent for wheat.

The farmer can also take a "10 to 30" option, which means that he cannot plant between 10 to 30 percent of his base acreage in any one crop. When added to the ARP and PDP requirements, this means that a farmer complying with the corn or wheat PIK program would limit his 1983 acreage of that crop to 30 to 50 percent of the farm's base acreage, depending on his level of PIK participation.

The U.S. government does not normally buy and sell grain. To obtain the grain necessary to carry out the PIK program, the administration is actually encouraging farmers to release the grain stored in the Farmer Owned Reserve (FOR), which they had used as collateral for Commodity Credit Corporation loans. The administration has announced that it is willing to cancel loan repayments and interest on that grain if the farmer agrees to turn it over.

For the government to legally acquire grain from the Farmer Owned Reserve (FOR), farmer A must forfeit it by defaulting on his CCC loan, or failing to make interest payments on his loan. Farmer B, participating in the PIK program, must accept what grain the government allots him, no matter what the quality. Although the accumulated interest charges on the previous owner's loan will now be forgiven on the date that the entitlement is transferred, much of this grain has been abandoned by its original owner because it is of such low quality it was not worth the cost of the interest and low repayments.

Current government-owned wheat stocks of 180 million bushels are held for security and foreign aid. Thirty-five to 40 million bushels of this are committed for the Egyptian wheat flour sale made early in the year, which exhausts all disposable government stocks. CCC stocks of corn are estimated to be between 450 and 460 million bushels, with 44 million of these being held for disaster relief. One-and-a-half billion bushels of corn will be needed to pay farmers already signed up for the program. The government owns no cotton.

If farmers chose to stay with their present PIK commitments, reduced plantings and harvestings would cut farmers' use of seed, fertilizer, and pesticides by 12 to 15 percent from last year, according to the USDA. Fuel use is expected to fall 8 to 10 percent. Already harshly reduced machine purchases will be affected much less, USDA predicts, declining 2 to 3 percent.

The immediate effect of the PIK program would be to force layoffs or shorter workweeks for at least 2 to 3 percent of those employed in agriculture-related industries. Employees of companies that provide farm services or produce farm equipment and chemicals will be most heavily affected.

The price support issue

The PIK program is Phase I of the administration's attempt to reduce price supports by at least 50 percent. "Free market" ideologues, who believe that the international commodity cartels should set the price of world food prices and therefore control world food production levels, are demanding (for example, the March 21 issue of *Business Week* magazine) that all price supports should be scrapped. This would detonate a bankruptcy wave in the farm sector.

Though the USDA generally denies that there is any relationship between PIK and and its policy of phasing out price supports, PIK economist Ray Voekel admitted that once "supply and demand" were more in line "farmers will not have to get price supports."

One of the strongest arguments made by the free marketeers is that the government is carrying an increasing proportion of the farm debt. As of Jan. 1, 1983, the government is carrying 27 percent of the $105 billion non-real estate debt. In 1979, this proportion was 16 percent, which includes CCC price support and crop storage loans as well as Farmers Home Administration debt. Because of ever lower prices, high interest rates, and increased production costs resulting in income losses for farmers, the CCC price support and crop storage debt increased by 69.5 percent from Jan. 1, 1982 to Jan. 1, 1983. But it is the advocates of the free market like Paul Volcker, chairman of the Federal Reserve Board—the single policy maker most responsible for burdening farmers with massive debts—who now demand that government assistance to farmers be cut and farm prices be determined by the international speculators. That amounts to a national security threat.