it also put a ceiling on them. A nonrecourse loan program administered by the Commodity Credit Corp. allowed farmers to borrow money from the Government by using their crops as collateral. Until 1972 the government loan rate guarantees were often higher than the market price. So the farmer simply wouldn't redeem his crops at the end of that year.

After their tremendous prosperity of recent years, farmers fear a ceiling more than they want a floor. And that's what the Republican Administration has done: lowered the floor and removed the ceiling. Today loan rates are set deliberately low. Banks offer the farmers \$2.50 per bushel of wheat, *vs.* the \$1.44 the Government is giving. The result has been that the CCC—once the stockpiler of U.S. reserves—is out of the grain business. In 1971 the CCC owned 144 million bushels of corn and 372 million bushels of wheat. In 1975 the CCC no longer owned any grain.

Will The Bottom Drop?

At the moment, therefore, the farmers are providing their own floor, but it's an expensive process—and it may not hold. According to Henry Casso, economist for the Senate Agriculture Committee, the effect of a 1-billion-bushel carryover of wheat, without supporting exports, will mean that the bottom will drop out of farm prices, and that "would put a lot of pressure on Jimmy Carter." The Republican and Democratic platforms offer the farmer some choice: Republicans oppose government-controlled grain reserves. The Democrats are calling for a rebuilding of at least some reserves—a two-month supply, owned half by the farmer and half by the government.

Still, it's hard to find a farmer who likes the idea of the Government stepping back into his business. Since farm income has almost doubled—from \$14.2 billion in 1972 to \$26 billion last year—farmers feel they have the resources to hold out. And they believe they'll get a better shake with grain reserves in *their* hands, not Washington's. Ironically, the effect of withholding grains might be the very thing that will force the Government back into grain reserve stockpiling.

And as Norman Still points out: "In 1975 if the farmer had arbitrarily—without looking at the market—sold one-twelfth of his corn at the first of every month, he would have averaged \$2.96 for a bushel of corn. By holding their produce, I'm sure they're realizing considerably less."

A free market has advantages. But you must swallow its discipline; you can't have things both ways. That's what farmers are discovering today. ■

The Hedging Phobia

COULD the grain farmer have done *anything* besides withhold his crop to protect himself against the downward pressure on prices of a record harvest like this? Yes, for one, he could have hedged in the futures market. Hedging advisory services have sprung up to counsel farmers when and how to hedge. Universities teach it to agricultural students. Even local bankers attend seminars on how to finance hedging. But only about one farmer in 30 hedges to any extent.

Before 1972 there was no real reason for farmers to do so; government loans and price supports made them less vulnerable to market fluctuations. Now there is good reason, but the complexity and apparent risks can frighten many farmers away.

In a way, it's not surprising. While it may vary with local market conditions, here's essentially what a farmer would need to do: The current cash price of a crop and the value of a futures contract in that same crop almost always move in the same direction. Assume a farmer has 10,000 bushels of wheat coming to harvest in July. To protect that crop in the fall against a decline in wheat prices, he "sells" 10,000 bushels of wheat on the futures market for December delivery.

Suppose, as time goes by, both the cash price and the futures price for winter wheat fall by 80 cents a bushel. The farmer doesn't lose any money. He will lose 80 cents per bushel in the cash market when he sells off his wheat through the usual channels—either to an elevator, miller or exporter. But he will *gain* 80 cents per bushel when he buys back his "short" futures contract at 80 cents less than he paid for it. His net difference on the transaction was zero, but hedging made the difference between a profitable year for him and an unprofitable one.

Now suppose both the cash price and futures price *rose* 80 cents a bushel. Again, the farmer loses no money. In the second case, he would have lost in the futures market but made up the difference in his cash crop transaction.

"There's no question that hedging would have helped a farmer this year," explains J. Errol Baxter of Heinold Commodities' farm market division in DeKalb, Ill. "Heck, December wheat futures contracts were as high as \$4.20 around July 5, but since then they've dropped to around \$3.20. Anyone who sold futures around that \$4 mark would have had his price protected."

Farmers don't understand what goes on in the pits, so they stay away.

But, to the cautious farmer, the practice of hedging looks like gambling, says Gordon Linn of Lincoln Commodities. Another thing that keeps a farmer out of the futures market, he believes, is the margin call. Margin money is technically "earnest money," a deposit that a futures trader must make as a financial guarantee that he'll fulfill his obligations. The initial margin is usually 10% of the value of the total contract. To sell a futures contract for 10,000 bushels of wheat at \$4 a bushel would require an initial margin of \$4,000. But if at any point the market does go against the trader (say the futures market moves from \$4 to \$5 per bushel) then the farmer is required to put in additional funds to bring his margin back up to the initial margin level. (In this case, an additional \$1,000.)

Says Linn, "If a farmer sells his cash corn today for January shipment, he never has a margin call. He is never reminded that he's been wrong, and when he delivers the corn he doesn't think one thing about it. But when the futures market reminds him with the margin call device that he is wrong in his assessment of the market, he doesn't like it." Even a farmer who understands options, like 32-year-old Ralph J. Sonnicksen, uses the futures market to speculate, but he didn't hedge his corn and wheat this year. Why not? "I wish I had," says Sonnicksen now. "But it's sure easy to say what you should have done when you can see just what the market has done. But predicting tomorrow, isn't so easy."

Agriculture is big business today. Its practitioners will have to accustom themselves to using big business tools.

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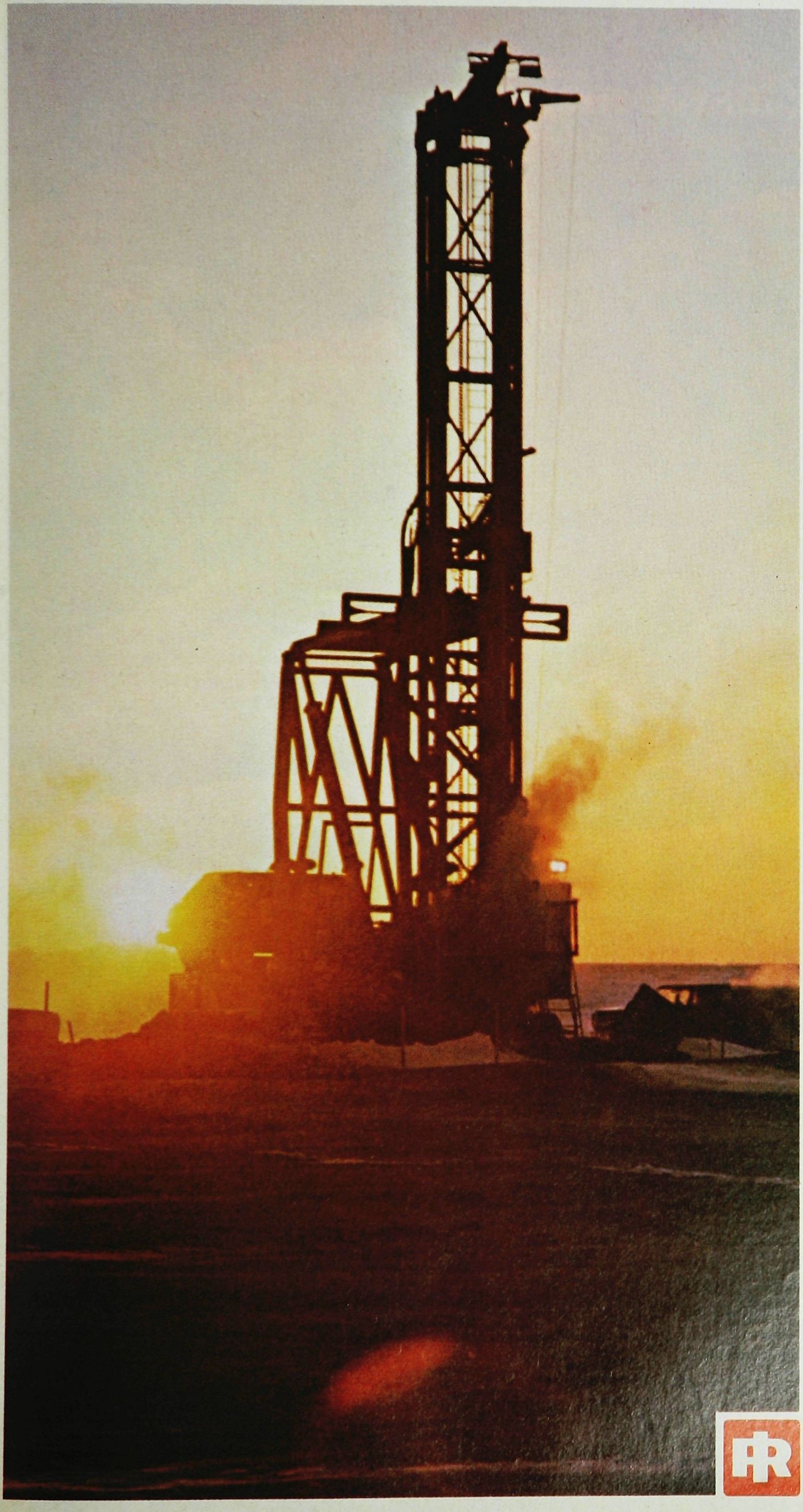

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