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Commodity Problems And Program Choices:  
Wheat, Feed Grains and Soybeans

By

James P. Houck  
University of Minnesota

Department of Agricultural Economics

University of Minnesota  
Institute of Agriculture  
St. Paul, Minnesota 55108

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In his recent book, Loren K. Eiseley, a widely-known anthropologist asserts that the standard rule of civilization can be stated in one phrase -- "Solutions to problems create problems."<sup>1/</sup> With this attitude, Dr. Eiseley could be inserted into a farm policy discussion with no questions asked. For, indeed, this sentiment neatly sums up much of this century's farm policy experience in most nations of the world, including the United States.

An Overview

Though it is almost painful to restate it, let me briefly summarize my own reasonably orthodox view of this nation's agricultural problem. The demand for the aggregate of all farm products increases slowly as population and incomes expand both at home and abroad. Fueled by large doses of land-using and capital-intensive technology, the supply of these products has increased rapidly, especially since the 1930's. The result, since the end of World War II, has been a long-term decline in relative market-clearing prices for the bundle of commodities which fill food and fiber needs. As the market-clearing price level

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\*\* The writer is Associate Professor of Agricultural Economics.

<sup>1/</sup> The Unexpected Universe, (Harcourt, Brace, and World: New York) 1969.

has fallen for these commodities and as technology has become more capital-and land-using, much of the resulting pressure for adjustment has fallen on the markets for labor. The lack of complete fluidity in these markets has meant that returns for human inputs in the farming process have either fallen or failed to rise as rapidly as returns for similar resources outside of farming. Moreover, the pace and form of technological advance has fostered a substantial increase in efficient farm size in most lines of production. This has driven an ever-widening wedge between commercial farms and smaller, less-productive rural places of residence on which some farming operations are conducted. Finally, the low shortrun price responsiveness of both demand and supply provides the potential for price and income instability around longer-term trends.

On one hand, we have benefited as a society from lower relative prices for food and fiber. On the other hand, we have sustained the costs of poor resource allocation and widening income differentials between the farm and non-farm sectors and within farming itself. In attempting to alleviate the basic problems, we have evolved a system of commodity programs which seeks to deal with resource misallocation and overproduction as they appear in first one and then another commodity market. <sup>2/</sup> In the markets for wheat, feed grains, and soybeans, resource abundance over time has shown itself (1) as less than "fair" market prices, (2) as mounting stocks in the hands of the Commodity Credit Corporation (CCC), (3) as idled acreage in voluntary land retirement programs, (4) as export subsidies, (5) as concessional exports to food-short friendly nations, or (6) as some combination of all these.

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<sup>2/</sup> While it is true that increasing, but belated, attention is being paid to rural poverty as a critical social problem largely distinct from commodity problems, income support in rural America has long been tied closely to commodity programs.

To complicate matters, the growing importance of foreign markets for food grains, feed grains, and oilseeds, and their products has provided a link between the farm problems and policies of many nations. Consequently, farm policy and program changes in, say, the European Community profoundly influence the U.S. agricultural economy and vice versa. It is, therefore, no longer easy to separate the farm problems of the United States from the farm problems of Europe, the United Kingdom, Canada, Japan, and nations of the less-developed world.

#### The Commodity Programs

I will not attempt to trace the legislative or economic history of wheat, feed grain, or soybean programs since the formative days of the old Agricultural Adjustment Administration. But it is fair to say, however, that in the 1930's a link between agricultural market prices and income support was forged which has yet to be completely broken. This link is weaker now than ever before, but still intact.

Until the early 1960's, commodity programs in wheat and feed grains featured relatively high market price supports and relatively weak output restrictions. The results were a visible, growing level of surplus stocks in government hands, large export subsidies, and overseas export disposal efforts, especially for wheat. Markets for soybeans and their products (especially meal) had been growing rapidly -- at least as fast as adaptable resources released from wheat, feed grains, hay, and cotton were flowing into soybean production. Until the middle 1960's, these resources were absorbed by soybeans with only occasional, temporary accumulations of price support stocks.

In the early 1960's, a set of complex, voluntary acreage control programs was introduced on a year-to-year basis for wheat and feed grains pending the passage of more permanent farm legislation which, in the aspirations of then-Secretary of Agriculture Freeman and his advisors, would contain more stringent supply management features. When it became clear that political support for such legislation was not sufficient for its passage and because the voluntary programs seemed to be reasonably acceptable all around, the Food and Agriculture Act of 1965 made these programs the keystone of farm price and income policy for the rest of the decade.

Under these voluntary programs, cooperating producers agree to limit acreage planted to the particular commodity to some fraction of an historically-established allotment base. In return for production restraint through acreage diversion, cooperators receive price support loans on actual output from permitted acreage. In addition, program participants also are entitled to payments linked to their historical acreage base and, in some years, to payments proportional to the amount of base acreage diverted away from production. The former are called price support payments and the latter are called diversion payments.<sup>3/</sup> Non-participating farmers are not eligible for price support loans or direct payments but are free to produce as much as they please, taking their chances on the open market or feeding the produced grains to their livestock.

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<sup>3/</sup> Direct price support payments for wheat now are made on the basis of the share of the "normal" output of each allotment representing domestic utilization (43 percent in 1969). For feed grains, the direct price support payment is now made on half the "normal" production of allotment acreage.

The program is flexible in that the Secretary of Agriculture can adjust, within limits, the loan rate, the qualifying diversion, and direct payment provisions so as to tailor each annual program in line with the Administration's policy goals. A voluntary program of this type is, of course, expensive since farmers must be induced to participate by economic incentives, no direct penalties being attached to non-participation.

Without going into detail, it is clear that, until about the 1967 crop year, the provisions of the voluntary programs were set so as to (1) encourage participation, (2) divert substantial amounts of acreage from production and, (3) through low loan rates, keep market prices from rising and thereby permit reductions of CCC inventories. So we traded surplus commodity stocks for idled acres. In 1967, government wheat stocks were only 16 percent of their 1960-61 average level. Similarly, government corn stocks in 1967 were only 26 percent of their 1960-61 average level. However, not all this stock reduction can be credited to the voluntary programs. Domestic and export demand increased generally over the same period. In any case, at the beginning of the 1967 crop year, something like 40-45 million acres stood idle as a result of the voluntary wheat and feed grain programs. It was relatively costly to idle these acres as anyone who has examined USDA budgets can testify. Moreover, with the focus on acreage adjustment, the effectiveness of any given level of diversion was continually eroded as technological advance pushed average yields higher and higher.

With the 1967 crop year, the voluntary programs turned a corner from acting as a continual brake on output to encouraging a modest expansion in acreage and output. This reversal in emphasis occurred because of the low levels

of carryover stocks from 1966 and because drought-induced crop failures in India and elsewhere in 1966 sent food and feed grain prices soaring, touching off world-wide fears of severe grain shortages and potential famines. In response, both the wheat and feed grain programs were adjusted by the Administration to encourage lower levels of diversion and somewhat larger output. Wheat production jumped 16 percent in 1967 as the national acreage allotment was expanded by 16 million acres. Feed grain output expanded 12 percent as 15 million acres moved out of diversion into production, figure 1.

Subsequently, larger grain harvests around the world in both developed and less-developed nations eased the international food supply situation. Market prices of both wheat and feed grains declined in 1967 and 1968, and government stocks increased.

A similar drama was enacted with the soybean price-support loan and storage program. The 1966 support rate was boosted by 25 cents per bushel to \$2.50. Market growth then slowed a bit as output expanded. In 1967 and 1968, soybean stocks grew rapidly as market prices rested on support levels, figure 1.

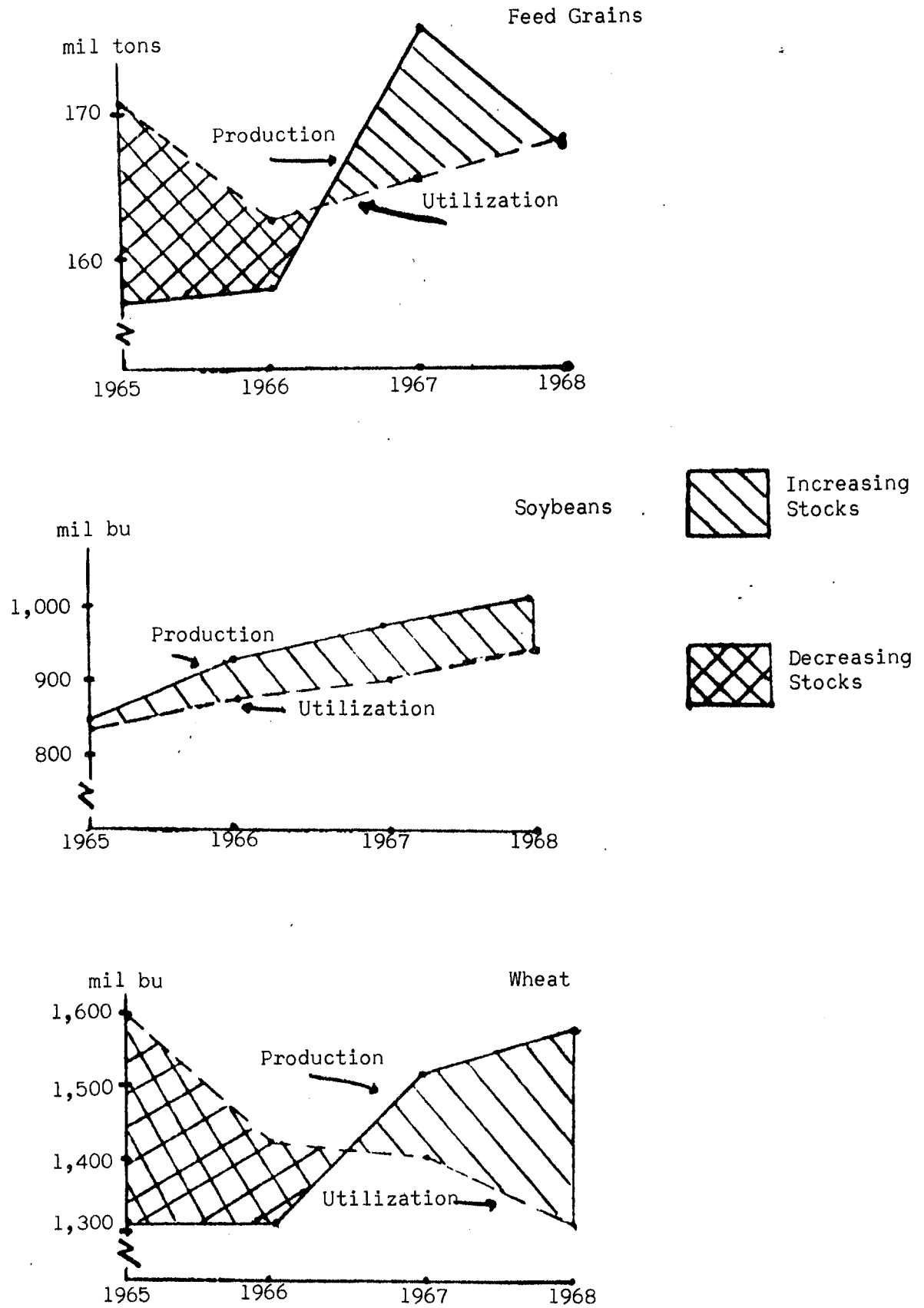
Faced with growing inventories, the Administration tightened the wheat program in 1968, in 1969, and again for 1970 to encourage more diversion and less production. The feed grain program was readjusted to encourage more diversion in 1968 and 1969. Soybean price supports were dropped approximately 30 cents per bushel for the 1969 crop year in order to discourage acreage expansion and to stimulate demand growth. <sup>4/</sup>

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<sup>4/</sup> The nominal decrease was from \$2.50 to \$2.25 per bushel of soybeans. But the grade to which the support refers was changed from No. 2 to No. 1. An average 5-cent per bushel premium is obtained for No. 1 beans, hence the actual drop in support prices approximates 30 cents per bushel.



Figure 1. Production and Utilization of Feed Grains, Soybeans and Wheat, 1965-68.



New Legislation

The Food and Agriculture Act of 1965, as extended, lapses in 1970. The new Administration is developing and testing ideas for its legislative proposals. Based on public statements by Secretary of Agriculture Hardin, by his colleagues, and from testimony presented to Congressional committees, we can identify at least the general tone of the new commodity programs for feed grains, wheat, and, soybeans. <sup>5/</sup> The final Administration proposal and the ultimate legislation seems likely to contain wheat and feed grain programs which:

- (1) remain voluntary
- (2) maintain a system of direct payments in addition to price support loans
- (3) provide market price supports through loans in the neighborhood of "world prices" (whatever that means) -- but generally around or lower than current levels.
- (4) maintain acreage diversion as the principal element of production restraint
- (5) permit slightly greater freedom for program participants in selecting alternative crops for planting on non-diverted acreage.
- (6) continue a two-price system on the buying side for wheat used domestically versus wheat exported.
- (7) place either a fixed direct payment limitation or a sliding scale constraint on large payments.

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<sup>5/</sup> I am not privy to policy deliberations of the Secretary's office nor do I have access to other than public information on new farm legislation.

- (8) give the Secretary of Agriculture substantial flexibility in determining the specifics of program provisions; including price support loan rates, levels of direct payments, amount of diversion needed for program participation, payment rates for additional diversion, etc.

For soybeans, I expect the new bill's programs to:

- (1) contain no direct restraints on production
- (2) provide relatively low price supports, perhaps lower than at present
- (3) continue substantial P.S. 480 exports of soybean oil

I consider it only an outside chance that soybeans will be drawn into the voluntary program package with acreage diversion payments available for historical soybean producers. The circumstances surrounding such a move would have to include large soybean acreage increases for the 1970 crop and soaring CCC inventories at this year's lower support prices.

The potential time span of the 1970 bill has not, to my knowledge, been the subject of much public discussion yet. I conjecture that a four-year (or longer) commodity program bill is not likely if any really new or different measures are adopted. More likely, in my view, is that the 1970 bill will be a rather short-term one, not because it is radically different, but because a major congressional floor debate will occur in connection with the legislation over issues like food stamps and malnutrition, agricultural pollution, consumer protection, farm labor, and, of course, payment limitations.

In summary then, I think that the highest probability exists for rather short-term voluntary wheat and feed grain programs roughly similar to those now in force. The similarity will be in both economic effects and treasury cost.

Differentiation from the work of previous Administrations will occur as terms like "Set Aside" and "Domestic Allotment" come into vogue. The major changes will involve payment limitations and added freedom for producers to choose among alternative crops and still participate in programs. Soybeans likely will remain outside the voluntary program umbrella.

#### Program Choices

It does not seem worthwhile for me to lay out and critically analyze the economic effects of the several broad categories of commodity policies which are possible, including the free market alternative. First of all, a substantial return to free markets for corn and wheat has been virtually ruled out by current Administration proposals. The simple price-support loan, storage, and export disposal alternative was abandoned after the experience of the 1950's as too costly both financially and politically. The more stringent supply management approach was smothered in its crib in 1963 having been judged not politically feasible. Land retirement, especially massive land retirement on a scale sufficient to deal with commodity problems, has been treated disdainfully by Congress and by most (but not all) rural-based interest groups. The Conservation Reserve portion of the 1956 Soil Bank Act and the Cropland Adjustment Program of the 1965 Act were only modestly funded.

Voluntary programs featuring direct payments for compliance and some form of the two-price mechanism seem to be the only feasible alternatives open at the moment. These programs offer both a practical and a theoretical compromise among the mutually exclusive objectives of (1) higher net farm income, (2) lower treasury costs, (3) lower food and fiber prices, and (4) more optimal resource allocation. This is not to say that voluntary programs

of production restraint are with us forever, or that the general approaches now discarded might not be resurrected someday.

Fertile minds may devise new approaches, but it is unlikely that they will involve totally new or totally agreeable ways of dealing with the abundant (or redundant) productive resources locked into the cash crop sector of our farm economy. The best that we can hope for at the moment is to encourage continuation of the adjustment process without an abrupt plunge to the free market allocation mechanism. We probably will continue to redistribute a portion of the national income to those excess resources through direct payments for program compliance. At the same time, I also feel that we soon should evolve a sizeable effort to reduce and alleviate conditions of rural poverty which are not touched by commercial farm programs and commodity policies.

#### Program Improvement

If it can be agreed that voluntary programs for output control are the most feasible and likely alternative until further notice, then we, as interested citizens, are free to offer suggestions on how they could be improved. The following, briefly stated, are my recommendations. These notions flow from my view of the overall farm problem as it is reflected in the wheat, feed grain, and soybean sectors.

First and most important, in my opinion, is that the major annual provisions of these crop programs must be determined as simultaneously as possible, especially those for wheat, corn, soybeans and cotton. The excess resources which the programs are trying to contain can adjust and flow at the margin within

agriculture so that a miscalculation in one commodity can spill over and undermine the objectives of other programs. The day seems to be gone when an imbalance between the wheat, corn, or cotton programs can be largely absorbed by a growing and expanding soybean economy.

Corn policy is the linchpin of the system. It is the major link between the crop and livestock economy; it is the program which most importantly affects the agricultural heartland of the nation; and it is the program to which each of the others has its most direct economic link in terms of resource adjustments. For instance, as long as soybean output is not restricted, the decisions on corn supports and diversion are the crucial factors determining whether a given soybean price support loan rate will generate more carryover stocks, clear the annual market, or permit a reduction in carryover. One could discuss these interrelationships in much detail, but this example makes the point.

Next, is the continued and heightened recognition that policy makers must give to the crucial importance of export markets. Last year, 39 percent of our soybeans, 34 percent of our wheat, and 12 percent of our corn went abroad. These figures vary from year to year, sometimes widely, as supply, demand, and political factors change for both our overseas customers and our competitors.<sup>6/</sup> Since we often have little or no control over these changes, they can produce instability in our own markets and programs. Yet we must move carefully in commodity policy decisions since our exports make up a large share of the world trade in wheat (36 percent in 1968), soybeans (90 percent in 1968) and feed

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<sup>6/</sup> The participation of the United States in the International Grains Arrangement is a fascinating and complex question, but beyond the scope of this paper.

grains (40 percent in 1968). Hence, our program changes can substantially alter prices, incomes, and foreign exchange earnings for many nations.

My next suggestion is that now might be a good time to drop national acreage allotments and bases and adopt a system of base quantities of the commodities for program purposes. The allocation of allotment quantities could be carried right down to the farm level but then translated into annual acreage equivalents using an appropriate local yield figure. Employing allotment quantities for each individual farm as the basis for voluntary program benefits would be difficult since (1) some wheat and much feed grains are consumed by livestock on the farms where produced, and (2) the voluntary nature of program participation would make it possible for "participants" to market excess production through non-participants. However, the allotment quantities could be attached to individual farms and annual acreage calculations made for compliance-monitoring purposes. Erosion of the effectiveness of given treasury outlays would still occur as technological advance improves the productivity of all resources. However, policy and program decisions would not have to be made with a measuring device whose size is continually changing. This sort of policy change might have substantial impact on land values of farms now holding acreage allotments. This should be investigated thoroughly, but need not render such a change impossible.

Allotments and bases, whether in acres or quantities, could be made more transferable within and between states. This would be consistent with the Administration's announced objective of more freedom for decision-making. Sales and transfers of allotments could aid in improved resource allocation. To prevent allotments from being accumulated by units judged to be "too large",

restrictions on allotment purchases could be invoked. Similarly, to protect rural communities, the rate at which allotments leave a given county also could be controlled.

I have a few more general, but miscellaneous, suggestions concerning new commodity legislation:

1. I agree that it is a good idea to drop the linkage between commodity support prices and our traditional parity calculations, as the Administration proposes. But it would be a mistake to become locked into a rigid moving-average calculation based on so-called world prices. First of all, any price analyst can tell you that moving averages of past prices will lag behind any change in the general trend. Secondly, world price levels for wheat, feed grains, and cotton are really the net effect of our own programs and policies balanced off against those of other major trading nations, with no necessary attachment to real, underlying economic relationships. Considerable study should go into this question.
2. Though I think it unlikely, I recommend that a much more permanent commodity bill be enacted. My ideal basic program law would run perhaps 8-10 years with provision for 2 or 3 major appropriation bills during that period. This would have the dual advantage of giving these programs a real test and, at the same time, freeing valuable Administration and Congressional resources for the consideration of other vital problems which now torture rural and urban America.
3. Finally, it should be mandatory that any new program, no matter how complex at the administrative level, should be made simpler at the



farm level. I doubt that many midwestern farmers whose production alternatives include wheat, corn, barley, and soybeans can make more than an approximate evaluation of the profitability of possible alternatives available to them from the welter of present options and regulations.

### Conclusion

Consider again Loren Eiseley's profound thought, "Solutions to problems create problems." I have no doubts that our efforts to find solutions to agricultural problems will continue to cause new problems. Hopefully, the new problems will be of a smaller order of difficulty than the original ones. But permit me to suggest a modest corollary to this rule, "important problems for which no solutions are attempted hardly ever go away by themselves."