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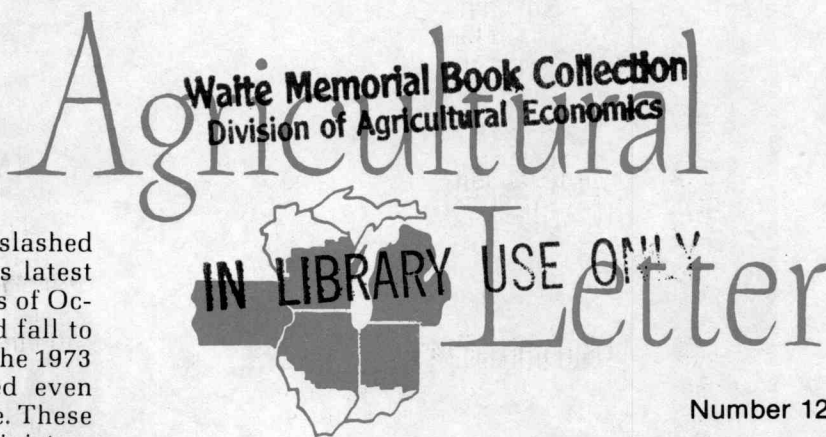
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October 18, 1974



Number 1296

CROP PRODUCTION ESTIMATES were slashed again in the U.S. Department of Agriculture's latest assessment of the 1974 harvest. Conditions as of October 1 indicated the U.S. crop harvest would fall to the lowest level since 1970, 7 percent short of the 1973 record. The actual harvest may be reduced even further as a result of subsequent frost damage. These developments plus recent actions of the Administration that resulted in the hold on grain shipments to the Soviet Union and the adoption of a more structured export monitoring system brought into sharp focus the precarious nature of the world grain balance.

Production estimates for both foodgrains and feedgrains were lowered in the latest report. The cut-back in foodgrains largely reflected further deterioration in the spring wheat crop that dropped the estimate of total wheat harvest to 1.78 billion bushels, 1 percent below the September forecast. Compared to a year ago, however, wheat production is up 4 percent. The feedgrain production estimate was reduced to 168 million tons, 5 percent below the September forecast and 18 percent short of the 1973 harvest.

Corn production is now pegged at 4.7 billion bushels, down 6 percent from a month earlier and 16 percent short of last year's crop. Nationwide, yields are expected to average 74 bushels per acre, down from 91.4 bushels last year but slightly above the recent low of 72.4 bushels for the blighted 1970 crop. In district states, corn production is expected to be down about 20 percent in Indiana and Iowa, while the harvest in Illinois will probably drop 16 percent below a year ago. Production in Michigan and Wisconsin is expected to fall 13 and 1 percent, respectively.

Soybean production is presently estimated at 1.26 billion bushels, down 19 percent from last year. Except for Wisconsin, comparatively large declines in soybean production are expected in all district states, ranging up to 28 percent in Indiana. Nationwide, per acre yields are expected to average 24 bushels, compared to 27.8 bushels a year ago.

The reduced feedgrain harvest has led to the smallest domestic feedgrain supplies in 17 years. And in conjunction with sharp declines in wheat production in the Soviet Union and in Canada, the entire world grain supply/demand balance has tightened appreciably. Recent estimates indicated the USSR wheat harvest would fall to 90 million metric tons, down 18 percent from a year ago and close to the poor 1972 harvest. Although worldwide estimates often lack precision, figures compiled by the U.S. Department of Agriculture suggest that world grain production in fiscal 1975 will fall to 926 million metric tons, down 5 percent from a year earlier. Although world demand

remains strong, virtually depleted reserve stocks in combination with reduced production will cause world consumption to decline for the first time in over a decade. In recent years, world consumption has increased 30 to 40 million metric tons annually.

These conditions led the Administration to adopt a system of selective export control measures, despite earlier assurances to the contrary. The measures call for U.S. grain exporting firms to voluntarily obtain USDA approval before entering into new export commitments involving large quantities—a single transaction of 50,000 tons or more to any one country or 100,000 tons in any week to all destinations—of wheat, feedgrains, soybeans, or soybean meal. Approval is also requested for changes in destinations on existing export commitments.

The impact of these measures on domestic grain prices is uncertain. The measures may be designed primarily to govern the distribution of U.S. grain exports rather than the quantity of exports. If such is the case, the price impact would be comparatively minimized. However, the criteria by which the USDA accepts or rejects exporters' requests and the degree to which exporters will cooperate in the voluntary program are highly uncertain factors that will have an important bearing on the direction of the measures and on domestic prices. Moreover, the contentions of some observers that the world supply/demand balance for grain is even tighter than current USDA data indicates, suggests that stiffer, and perhaps mandatory, export controls may yet be applied.

The appropriateness of export controls is a highly debatable issue for which there is probably no right or wrong answer in terms of the overall economic, social, and political environment both domestically and internationally. The impact of reduced supplies will be substantial in some parts of the world with or without controls. But the uncertainty behind the intent and effectiveness of present measures could lead to a more damaging impact than that which would result from a firm policy decision.

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