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IMPACT OF PROPOSED CHANGES IN COMMODITY PROGRAMS
ON FARMERS AND AGRICULTURAL BUSINESS IN THE NORTHEAST^{*}

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The proposed changes in commodity programs which are now being considered by Congress will not have a major impact on the incomes of farmers in the Northeast nor on sales of firms supplying inputs or services to farmers. This conclusion is based on the assumption that the principal changes finally adopted will be to raise target prices for wheat, and to a lesser degree for corn, and to encourage on-farm storage of these commodities. Neither commodity, of course, is an important source of farm income in most of the states represented at this meeting. One of the consequences of raising target prices, however, will be to increase the cost of farm programs. Substantial government payments are likely to be made once again to producers of wheat and perhaps to those growing corn and cotton as well.

The cost of feed will continue to be influenced much more by weather, both at home and abroad, and by storage and marketing decisions made by farmers than by what Congress does with the 1977 farm bill. Moreover, feed use in the Northeast does not appear to be strongly influenced by changes in ingredient costs. Thus, those supplying feed need not be unduly concerned if Congress raises target prices or even mandates a modest increase in loan rates for corn and soybeans. With incentives to maintain production and to store additional grain on farmers, livestock feeders will be somewhat less vulnerable than they were in the mid 1970s to a sudden increase in export demand or an adverse crop season.

Raising the minimum support level for manufacturing milk from 75 to 80 per cent of parity (and mandating quarterly adjustments) could put a slightly higher floor under the incomes of dairy farmers although the historical evidence suggests that the Secretary of Agriculture is likely to maintain supports above 75 per cent of parity over the next 2 or 3 years even without a Congressional mandate to do so.

Income Effects of Changes in Target Prices for Grains

The target price for wheat is one of the most controversial issues in the bills now before Congress. Wheat growers obviously are in trouble and therefore are pressing for higher support prices. Their

* Summary of remarks prepared for presentation at the Annual Meeting of the Northeastern Agricultural Economics Council, June 29, 1977.

chances for success are relatively good because the Great Plains states are overrepresented in the Senate Committee on Agriculture, Nutrition and Forestry. Seven of the 18 members are elected from states in which wheat is an important source of income (Montana, North Dakota, South Dakota, Nebraska, Kansas and Minnesota).

Having experienced prices as high as \$4 and even \$5 per bushel in the mid 1970s, wheat growers are not prepared, either psychologically or economically, to accept a pricing standard for wheat based on its feeding value. But Congress is well aware of the potential adverse effects on export sales of overpricing wheat. Thus, they dare not raise loan rates very much above the current level. Given these constraints, the only solution to the income problem is to raise target prices, which obviously could lead to substantial income transfers from taxpayers to wheat producers if we have another large wheat crop, and world markets are not particularly buoyant. Relatively few farmers in the Northeast are in a position to benefit from large wheat payments, especially if such payments are based on historical allotments rather than the acreage actually planted in recent years.

Raising target prices for corn also could lead to substantial government payments although Congress appears to be more cautious in raising target prices for corn than for wheat. More farmers in the Northeast would qualify for corn payments than for wheat payments, but it is obvious when one examines the composition of income by states that the combined effects of both corn and wheat payments are likely to be extremely modest. In only two states within the Northeastern region (Maryland and Delaware) does the gross income from the sale of wheat and corn exceed 10 per cent of gross farm receipts. These two commodities provide only 7 to 8 per cent of gross farm receipts in New York and Pennsylvania and less than 1 per cent in all other states. Lifting the current ceiling on total payments to any one individual from \$20,000 to \$35,000 or \$50,000 obviously will help the larger farmers, but most of those affected by the proposed change live in the Great Plains or Midwest rather than in the Northeast.

Indirect Effects of Changes in Support Programs for Feed Grains

For most states in the Northeast, the indirect effects on feed ingredient costs will be more important than the direct effects of changes in support programs for grains. Much more grain is purchased than is sold in the region. In every state except New Jersey, feed costs exceed 20 per cent of aggregate farm expenses and in few states they amount to more than 30 per cent. Returns to those feeding livestock have been squeezed in recent years because of high feed costs. Livestock product prices generally have not kept pace with increases in feed costs since 1972, or to put it another way, livestock product/feed price ratios have declined. Moreover the ratios have been extremely unstable although not necessarily more so than in the preceding decade when feed ingredient prices were much more stable. Northeastern dairymen and egg producers obviously are concerned about the effect of proposed changes on feed costs.

The proposed increases in target prices, loan rates and incentives to store grain could help to stabilize feed ingredient prices at a level which is somewhat lower than the average of the past 4 years. Provided production controls or set-aside programs are not reinstituted, the net effect of raising target prices and loan rates (and subsidizing on-farm storage) will be to encourage farmers to maintain high production and to build up surplus stocks. This will help to reduce the risk of a sudden increase in feed ingredient costs; however, the government will not have the same leverage to hold down prices which they had during the 1960s because stocks will be in the hands of farmers, not the Commodity Credit Corporation. Restrictions have been incorporated in the Administration's proposals which are designed to discourage farmers from selling grain held over from previous years at prices less than 40 to 50 per cent above current loan rates. Thus, if these provisions are adopted, farm prices for corn could fluctuate as much as \$1 per bushel, for example from around \$1.80 to \$2.80 per bushel, even with substantial storage stocks. This is a somewhat narrower band of price flexibility than we have experienced since 1972, but wider than prevailed in the 1960s.

If corn prices do average a little lower, this would help to restore the competitive position of dairy farms which lack the resources to produce their own feed supply, such as those in the Hudson Valley. In New York the comparative advantage of dairy production has shifted with higher grain prices during recent years to counties in the western part of the state where more cropland is available and corn can be grown successfully.

The Senate and House bills contain no provisions that might protect feed users against instability in soybean and meal prices. As long as the loan rate for soybeans is held at a level which is no higher than twice the loan rate on corn, there will be little incentive to switch from corn to soybeans. Furthermore, there is no provision for instituting target prices and payments for soybean producers. Under these circumstances, farmers may prefer to plant corn rather than soybeans which would make it unlikely that large storage holdings of soybeans would be accumulated. In the absence of an incentive system comparable to that for corn, soybean and meal prices could continue to fluctuate over a very wide range.

Clearly, instability in feed ingredient costs has created problems for feed manufacturers and for farmers, but there is little evidence to suggest that a reduction in price instability for grains will have much impact on the volume of feed sold to farmers in the Northeast. Feed sales to dairymen, at least in New York, do not appear to be strongly influenced by short-run changes in the milk/feed price ratio (Figure 1). The average amount of grain fed per cow has flattened out in recent years, but feed use has been maintained at a high level despite a substantial drop in the milk/feed price ratio since 1972. Increased specialization in egg and broiler production probably has contributed to greater stability in feed use by poultrymen as well. Long-run changes in the profitability of feeding livestock, the quality and quantity of roughage available in a particular year, and alternative employment opportunities will continue to have much more influence on the amount of feed sold in the region than short-run changes in livestock product/feed price ratios.

FIGURE 1. NEW YORK MILK / FEED PRICE RATIO AND GRAIN FED PER COW, 1960-76

Changes in target prices for corn obviously will not affect feed use. The major impact of an increase in the target price will be to encourage production, thereby preventing market prices from rising very much above the loan rate. Feed users will not be seriously affected by boosting the loan rate for corn as long as it does not exceed \$2 per bushel.

Changes in Dairy Supports

The Secretary of Agriculture now has discretionary authority to set the support price for manufacturing milk anywhere between 75 and 90 per cent of parity. Supports have been maintained above 75 per cent of parity every year since 1965, even by Republican Secretaries of Agriculture. In only two of the past 11 years have supports been pegged at less than 80 per cent of parity. In the remaining years, manufacturing milk has been supported at 80 per cent or above. Prior to 1966, supports were lowered on several occasions to the minimum level permitted by law, but in each case, this was done in response to large dairy support purchases the preceding year. E. E. Vial has shown that since 1952 the level of support in a given year has been related to CCC purchases (as a per cent of production) in the preceding year [1, p. 51]. Only when

purchases have exceeded about 8 per cent of production has the support level been reduced to 75 per cent of parity. Obviously these decisions are political, but the evidence does suggest that unless support purchases exceed 6 to 8 per cent of production, support prices are likely to be maintained at or above 80 per cent of parity.

Support purchases are now rising, but probably will not exceed about 5 per cent of production in 1977/78. A build-up of dairy stocks ultimately could force the Secretary to consider lowering supports to 75 per cent of parity in the absence of a Congressional mandate to restrict the range of flexibility; however, such action is unlikely over the next year or two.

Conclusions

The proposed changes in commodity support programs which are most likely to be approved by Congress will not seriously affect feed users and could even benefit them slightly if the additional incentives offered in the form of higher target prices and loan rates result in increased production and larger reserve stocks. As long as the loan rate on corn is not pegged above \$2.00 per bushel, Northeastern farmers have little cause for concern. But feed ingredient prices could still fluctuate over a considerable range, especially the price of soybean meal, since the proposed legislation contains no provisions that would offer farmers an incentive to switch to soybeans or to increased storage holdings.

Higher target prices for wheat and corn, as proposed in both the Senate and House bills, could prove costly to taxpayers. As much as \$2 to \$4 billion could be added to farm programs costs annually over the next 4 years with most of the benefits going to producers in the Midwest and Great Plains.

Some dairy farmers in the Northeast (although probably a minority) would prefer to retain the present range of flexibility in supporting the price of manufacturing milk rather than to raise the minimum floor price to 80 per cent of parity. They are concerned about the effect of higher support prices on consumption of dairy products and on public costs. For at least the next year or two, however, the Secretary of Agriculture is likely to maintain dairy supports at or above 80 per cent of parity regardless of what Congress decides to do. The issue is chiefly one of who is to get the credit for higher prices for dairymen. By mandating an 80 per cent minimum floor, Congress can share with the Secretary any political benefits that may flow from having attempted to improve the incomes of dairy farmers.

Reference

- [1] Vial, Edmund E. "Milk Production Utilization and Prices with Milk Orders and Price Supports," The Market Administrator's Bulletin, Volume 37, Economic Report, March 1977.