Livestock Feeding

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Livestock Aspects of Feed Grain Policy

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It is a signal event that our topic should be included on this program.

In recent years the livestock and poultry economy has scarcely been considered in the making of price and income policy for feed grains. It has been disregarded by pragmatic policy makers. It has been almost equally bypassed by theoretical economists, who usually kibitz freely.

Policy for support and target prices for corn, grain sorghums and other feed grains has been made with an eye almost exclusively fixed on the producers of those crops. The target price has been set relatively high in order to protect crop farmers' income. The latest (and current) loan rate policy has been to hold the rate low. Although a low rate facilitates moving grain into livestock and poultry consumption when crops are abundant, it does nothing to provide buffer stocks for years when crops are short. In addition, a couple of years ago it became administrative policy to dispose of the stocks inherited from an earlier period, even subsidizing their sale abroad.

But the foremost example of one-sidedness is the attitude toward release prices. In all the rhetoric heard recently about the peril of holding corn or sorghums in reserve, the scold has been that release prices would not be set high

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enough. What group can the spokesmen have had in mind? Feed producers, of course! Not feed consumers--that is, livestock and poultry men. It has been a one-sided consideration of a two-sided issue.

If all groups are to have equal voice in policy-making, how can livestock and poultry interests be so ostracized?

The one-sidedness has more impact now that so much livestock and poultry production has become detached from feed supply on individual farms. The livestock-poultry economy is therefore more sensitive to the availability and price of feed.

It is in fact a contradiction that historically, livestock and poultry got more attention when they were still closely connected with feed production on the farm. In the early years of farm programs the Ever Normal Granary was consciously designed to level out the supply and price of feed for livestock and poultry. Now that livestock and poultry have become more commercial and more vulnerable to a volatile feed situation, feed price stabilization has been progressively removed from the councils of farm policy.

And the ultimate contradiction is that the alleged price-depressing perils of a feed reserve have been proclaimed in disregard of the fact that the main defense of feed grain producer's incomes is the target price-direct payment mechanism, not support prices. If grains on reserve should cause market prices to be reduced below target level, producers would get bigger direct payments. That is, producers with a base on their farm are protected in that way. Admittedly, production outside such a base would not be eligible for payment.

The Goals for Livestock Stabilization

If a price and income policy for feed grains is to be scrutinized for its effect on livestock and poultry enterprises, the possible reasons for doing so are few and easily recounted. They could be:

1. To give some stability to operating margins in feeding and therefore to incomes of livestock and poultry producers. Less volatile feed prices would be in livestock producers' interest: this is self evident. It is worth noting that livestock and poultry enterprises are essentially margin operations. This is true, in an accounting sense, even for farms that produce some or all of their feed.

Economic efficiency is promoted by margin stability since instability tends to break the over-expanded and financially vulnerable producers, who are frequently not the inefficient.

2. To serve the interests of consumers. Consumers dislike the wave-like flow of meat and poultry products they have been subjected to.

2a. Reason (2) can have at least two whiplash effects on producers: a prolonged shortage period may possibly move the demand curve for livestock and poultry products to the left, worsening the price drop when supplies increase; and if a shortage comes during inflation it can create irresistible pressure for price controls.

3. To protect export markets for livestock and poultry products. This export counterpart of reason (2) is not extremely important. However, annual exports of livestock and poultry products run at about $1 1/2 billion, and vacillating supplies can do some injury.

4. To influence the form of organization of the livestock and poultry industries. Highly unstable prices for feed introduce a risk element that can be devastating to the structure of the livestock and poultry sector. Breimyer has sketched possible directions it could go. The three choices present a paradox, for the first would be to push livestock and poultry back to the shelter of combined feed-livestock operations on individual (family) farms, but another would be the exact opposite, namely, to turn to non-farm sources for risk-bearing. Limited partnerships in cattle feeding serve this purpose. /2/ But a more general solution might include other alternatives such as integration by conglomerate agribusiness.

A third possibility is to set up a Marketing Board for each major livestock or poultry product, giving it broad powers to protect its markets and margins. This has not been the U.S. choice but might be opted for under duress.

5. To stabilize demand for feed grains, and thereby reduce

shocks upon their producers, upon (government) program operations, or both. What we have in mind is the weak market that a bumper crop of corn may face in the fall of 1975 due to hog producers' having had to sell off so much of their stock. If the corn that the CCC disposed of so enthusiastically a few years ago had been used to sustain breeding herds of hogs this past year, the corn market for 1975-76 would be stronger.

There is, verily, a mutuality of interest between feed grains and livestock, where stability is concerned.

6. As still another reason, usually omitted, to reduce variability in the commercial feed manufacturing industry.

Alternate Policy Choices

Among several kinds of programs we list four that relate basically to feed grains and livestock and have indirect effects on livestock and poultry. A fifth applies to livestock and poultry and has indirect effects on feed grains.

For feed grains

1. No program
2. Target prices but no price supports
3. Target prices but no price supports; and a government "accordion" program for exports
4. A government-managed program of reserve stocks, probably associated with various price support, target prices, and export activities.

For livestock and poultry

5. Price or income supplements. These could be

combined with any of the four feed grain programs listed above. However, the more the price of feed is stabilized, the less would be the need for stabilization of returns to livestock and poultry producers.

Land Retirement. A question will arise as to whether land retirement authority ("set-asides") under the Agriculture and Consumer Protection Act of 1973 would be involved in programs (1), (2), or (3). The assumption made here is that land retirement has not often been applied so effectively as to influence current market prices very much. Usually it has served mainly to reduce the government's obligation, including correcting a situation (such as excess stocks) built up in previous years. This assumption might be too heroic. But there is some advantage to keeping the number of alternate combinations down to a reasonable number.

Consequences of Alternate Programs

Principal consequences for livestock and poultry of the several alternate programs follow.

1. If nothing whatever is done, markets will be "free," variable, and unpredictable. Nostrums such as using the futures market for stabilization can provide no aggregate solution, in our judgment. Risk will be high, and will likely be transferred increasingly to non-farm bearers. Alternatively, some commodity groups might adopt the Marketing Board scheme, absent from our shores until now.

Buyers, domestic and foreign, will continue to view this solution as most unpalatable. Farmers, and the public institutions and private businesses connected with agriculture, will find themselves the frequent target of consumer wrath. Other nations--whether large importers or exporters--will turn even more toward measures to protect themselves from the fluctuations of our prices and supplies.

Whether we like it or not, the trend of the times is to resist high unpredictability and chronic variability in economic affairs.

2. A program based solely on target prices for feed grains would do much more for feed grain producers than for the livestock industry. Set high enough, target prices would stimulate feed grain production and thereby reduce slightly the chance of short harvest and reduced feed supply in any one year. It's a costly way, both politically and economically, of avoiding what can be accomplished with a feed reserve program.

Target prices for feed grains, used alone, are the most partisan of programs. They stabilize feed grain growers' incomes, and do little good for livestock and poultry.

3. Conceivably, it could be official policy to use foreign trade as a weak market stabilizer. In fact, this has been our policy at times the past two years. Annual movement of feed grains is big enough that action to promote export sales in a big supply year and cut them back during shortage helps to stabilize supplies and prices for

the domestic livestock and poultry sector.

The disadvantage lies in consequences to foreign trade--both payment balance and foreign relations. One expands foreign exchange earnings by maximizing sales when world demand is strong rather than weak. It is unlikely that large and short crops of feed grains in the U.S. will be matched by strong and weak world demand. Thus U.S. reserves are the prerequisite bridge to capitalizing on variable world demand. Moreover, it is easy to enforce the promotional features during flush supplies but difficult to impose restrictions when feed supplies are tighter. Feed grain producers, heedless of a balanced equation over time, would scream. Nor is it fair to the American livestock industry to let state traders get the early market "bargains" in feed grains while our own feeders buy the residual supplies at higher prices.

4. Proposal number four resembles the program that was in force for many years. The consequence will be shaped not by its broad outline, but by its specifications.

That is, such an authority can in principle be used for whatever combination of ends is sought.

There are many options as to (a) how reserve stocks are to be acquired--by loan or by purchase, and at what price; (b) by whom and at what terms they are held; and (c) how they are to be released--under what conditions and at what price.

The system long in force was triggered by (non-recourse) loan and release prices. Much can be said in favor of that method, but other signals could be used for acquiring and releasing stocks.

We will indicate in our concluding comments our preference for this program. The crucial test is how wisely such a program is specified and managed. It is nice to lay out in scholarly fashion five alternatives and then check our choice, but sometimes not the basic design but quality of implementation is what matters most.

5. Alternative number five is perhaps the most original one we have set forth. We include it for completeness and not for advocacy. But if stabilization via feed supply should be wholly rejected, pressure for some sort of direct aid to livestock and poultry is predictable. It could be some kind of direct price or income supplement.

Nor is there any _a priori_ cause to reject it. Philosophically and politically, there is no valid reason why only the crop side of agriculture should be eligible for deficiency payments. Formulae for triggering them are no more difficult to draw up than those for crops. Further, the traditional resistance of the livestock and poultry enterprises to exposed direct subsidy is not a convincing argument. Sternly independent sheep and goat producers have not disavowed wool and mohair payments. A case can be made favoring direct subsidies over clandestine ones--over a consumer-paid subsidy via import quotas or duties, or the income tax subsidy that has become so large in cattle feeding. Cattle feeding subsidies may have approached $200 million in 1973. /3,4/

Deficiency payments to livestock and poultry producers would be more acceptable at times of oversupply and sharply depressed prices and feeding margins than in a year such as 1974 when scarce high priced feedstuffs squeezed feed-livestock margins. Consumers already paying what they regard as high prices for meat, milk, and eggs would look askance at dishing out a tax subsidy in addition. They would particularly object to subsidizing a farmer-feeder who might show a negative feeding margin but priced in his own corn at $4.00.

More than that, when the feed supply is limited and reserves down to zero, a feeding subsidy would be largely self-defeating. Much of the subsidy would be bid immediately into the price of feed. This logical outcome would be forestalled only to the extent that livestock and poultry producers would thereby bid feedstuffs away from export buyers.

Concluding Comments

We say again, we included alternative number five for completeness, but also to warn that if feed stabilization be neglected too long, pressure can be anticipated from the livestock and poultry sector for authority to set up a Marketing Board, for deficiency payments, or for some other kind of aid or protection including high protectionism in foreign trade and even more income tax concessions. Gyrations in feed prices such as those of the last three years are not tolerable.

But it ought not be necessary to go any of those directions. It may seem anticlimactic to conclude that the kind of program we had for 40 years is the best choice, but that is where we come out. Our proposal number four does resemble the program of the 1930's and 1940's. It is more correct to say that the tools are the same. Those tools are adaptable to the different international situation which many believe that we now face. To be honest, the present situation may make it harder to manage such a program. Exports of grains and other farm products are bigger now and more crucial to our balance of payments. By the same token we are more linked into world conditions--which to our amateur observers' eyes seem to becoming more unsteady. State trading, the demand for more reliable longterm commitments, and other considerations make it unlikely that even the best managed program can achieve high stability.

We have warned that the case for proposal four does not rest on a particular set of specifications. Almost the opposite is true: one of its merits is that it is inherently flexible and adaptable. If more details be insisted on, we offer a few. Question as to size of reserve always arises. It is almost misplaced. A reserve is not something to be held tightly at all times, like Silas Marner's money. By its nature it should move up and down constantly, responding to variable conditions of supply and demand. In a sense, the term Ever Normal Granary is a misnomer. If it does its job in keeping annual utilization normal, the Granary will be ever-abnormal. If the reserve stays small and is frequently drained away, the program is too conservative. If the reserve stocks grow too fast and threaten to climb above, say, a third of a year's production it becomes clear that support and release prices are too high.

If we want the program truly to stabilize on behalf of both grain farmers and livestock producers, the release price will not be pegged excessively high relative to support price. Perhaps 20 or 30 percent above support price would be high enough.

Program number four would moderate fluctuations in feed grain prices but not eliminate them. Thus livestock and poultry industries would get the benefit of a substantial degree of stabilization in feed supplies and prices, but could not expect all they would like. Viewed from the perspective of a total program to cushion shocks to the food system while maintaining our reliability as a supplier to foreign markets, there is a trade off between grain reserves and livestock production. The livestock industry cannot expect policies which isolate it entirely from vagaries of world weather or world economics. But it can benefit from a reserve program which appears consistent with broader national objectives.

Footnotes

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