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## Federal Reserve Bank of Chicago - -

January 14, 1972

# Agricultural Letter

Number 1152

THE "STRATEGIC GRAIN RESERVE BILL" now before Congress proposes stockpiling of feed grains and wheat and boosting government support loan rates for these commodities by 25 percent. The bill was passed by the House of Representatives in December 182 to 170. It will be considered by the Senate when Congress reconvenes January 18.

The bumper 1971 corn and wheat crops and attendant low grain prices provided the impetus for the proposed bill. If the measure is finally signed into law, which is far from certain, it will mark a reversal in recent government policy which has been aimed at making farm production and prices more market-oriented.

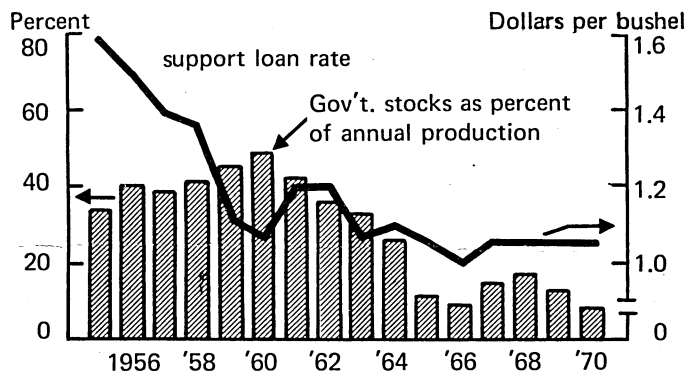
The last period of high price support loan rates (the rate at which farmers in the program may obtain nonrecourse government loans) was in the 1950s. During most of that decade, corn price support loan rates averaged over \$1.50 per bushel, compared to an average of \$1.05 per bushel in recent years. Similar declines occurred in the government loan rates for other supported commodities. Actual market prices of corn during most of the 1950s averaged well above prices in recent years but below the then existing support loan rates. For example, in the immediate post-Korean War period of 1953-54, season average corn prices received by farmers declined to \$1.46 per bushel, compared to an average support loan rate of \$1.61 per bushel. Since the enactment of the 1962 feed grain program, farm price support loan rates have been lower and closer to market clearing levels, with farmers receiving additional income support through direct payments. Between 1965 and 1970, corn prices averaged \$1.17 per bushel, compared to an average loan rate of \$1.05 per bushel.

Last year, in the wake of the blight- and drought-reduced 1970 corn crop and accompanying high grain prices, farm policy moved a step closer to a market-directed agriculture with the removal of feed grain and wheat acreage restrictions. Under previous farm programs, planted acreage of feed grains and wheat was restricted to the farm's feed grain base and wheat allotment. Under the 1971 programs, cooperating farmers were allowed to plant as much of any crop as they wished regardless of their base or allotment after "setting aside" a specified amount of cropland. Farmers responded to the relaxed government controls and high market prices in the spring of 1971 with a sharp increase in feed grain and wheat acreage. The increased acreage coupled with very favorable growing conditions during the year resulted in a record-large grain harvest and sharply lower prices.

The 1971 experience reaffirms the chronic tendency of farmers to overproduce in the absence of effective production controls. No program has yet solved this problem. High price support loan programs have resulted in large government-owned surplus stocks and eventual disposal problems. Direct payment

and lower support price programs, on the other hand, have resulted in steadily rising payments to farmers to curb production. During the 1950s, government stocks of corn (owned and under loan) rose from a Korean War low of 300 million bushels to 1.4 billion bushels. By 1959, stocks were equal to over 40 percent of annual production. After the enactment of the 1962 feed grain program, government-controlled surplus stocks were gradually reduced. In 1970, they equaled 13 percent of annual production. Stocks dipped to 8 percent of production, following the blight- and drought-reduced crop of 1970. But as government stocks declined, direct outlays to farmers increased sharply. Payments to feed grain producers increased from about \$840 million in 1962 to \$1.3 billion in 1970, or 55 percent. Total direct payments under all programs—primarily feed grains, wheat, and cotton—now account for well over one-fifth of farmers' annual net incomes.

Government Stocks of Corn Decline with Lower Price Support Loan Rates



The present proposal to create a strategic stockpile of grain while boosting support loan rates probably would have the immediate effect of raising farm prices. But, as experience has shown, the higher prices would be short-lived unless direct government payments were increased to remove more cropland from production or government surplus stocks were allowed to build to absorb the increased production resulting from higher prices. Either alternative would require a substantial increase in government outlays for agriculture, in the face of a general policy of budget stringency.

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**AGRICULTURAL ECONOMIC DEVELOPMENTS**

| Subject  | Unit           | Latest period | Value  | Percent change |          |
|--|----------------|---------------|--------|----------------|----------|
|  |                |               |        | Prior period   | Year ago |
| <b>INDEX OF PRICES</b>                                 |                |               |        |                |          |
| Received by farmers                                    | 1967=100       | December      | 115    | + 2            | +12      |
| Crops  | 1967=100       | December      | 121    | + 2            | +12      |
| Livestock  | 1967=100       | December      | 109    | + 1            | +10      |
| Paid by farmers  | 1967=100       | December      | 119    | + 1            | + 5      |
| Production items                                       | 1967=100       | December      | 117    | 0              | + 4      |
| Family living items                                    | 1967=100       | December      | 121    | + 1            | + 4      |
| Ratio of prices received to prices paid                | 1967=100       | December      | 95     | + 1            | + 6      |
| Consumer price index ( <i>all items</i> )              | 1967=100       | October       | 122.6  | 0              | + 4      |
| Food at home   | 1967=100       | October       | 118.9  | 0              | + 3      |
| <b>CASH FARM PRICES (<i>U. S. average</i>)</b>         |                |               |        |                |          |
| Corn   | dol. per bu.   | December      | 1.08   | +11            | -21      |
| Soybeans   | dol. per bu.   | December      | 2.93   | + 3            | + 6      |
| Wheat ( <i>all</i> )                                   | dol. per bu.   | December      | 1.34   | + 2            | - 5      |
| Sorghum grain  | dol. per cwt.  | December      | 1.86   | + 4            | - 9      |
| Oats   | dol. per bu.   | December      | .62    | + 5            | - 4      |
| Beef steers and heifers                                | dol. per cwt.  | December      | 32.90  | + 2            | +24      |
| Hogs   | dol. per cwt.  | December      | 19.70  | + 4            | +30      |
| Milk, all sold to plants                               | dol. per cwt.  | December      | 6.17   | 0              | + 2      |
| Milk cows  | dol. per head  | December      | 367    | 0              | + 7      |
| Chickens, broilers, live                               | cents per lb.  | December      | 12.1   | - 4            | + 1      |
| Eggs   | cents per doz. | December      | 34.1   | +15            | -10      |
| <b>INCOME (<i>seasonally adjusted annual rate</i>)</b> |                |               |        |                |          |
| Cash receipts from farm marketings                     | bil. dol.      | 3rd Qtr.      | 52.3   | + 3            | + 8      |
| Net farm income  | bil. dol.      | 3rd Qtr.      | 16.3   | +10            | +12      |
| Nonagricultural personal income                        | bil. dol.      | November      | 851.7  | 0              | + 7      |
| <b>FARM FINANCE</b>                                    |                |               |        |                |          |
| Total deposits at agricultural banks <sup>1</sup>      | 1967-69=100    | December      | 137.40 | 0              | +11      |
| Time deposits  | 1967-69=100    | December      | 160.34 | + 1            | +18      |
| Net demand deposits                                    | 1967-69=100    | December      | 116.52 | - 1            | + 6      |
| Total loans at agricultural banks                      | 1967-69=100    | December      | 150.35 | 0              | +15      |
| <b>Production Credit Associations</b>                  |                |               |        |                |          |
| loans outstanding:                                     |                |               |        |                |          |
| United States  | mil. dol.      | November      | 6,017  | - 2            | +15      |
| Seventh District states                                | mil. dol.      | November      | 1,183  | - 1            | +19      |
| new loans made:  |                |               |        |                |          |
| United States  | mil. dol.      | November      | 874    | +25            | +24      |
| Seventh District states                                | mil. dol.      | November      | 131    | +11            | +18      |
| <b>Federal Land Bank Associations</b>                  |                |               |        |                |          |
| loans outstanding:                                     |                |               |        |                |          |
| United States  | mil. dol.      | November      | 7,870  | + 1            | +10      |
| Seventh District states                                | mil. dol.      | November      | 1,543  | 0              | + 8      |
| new loans made:  |                |               |        |                |          |
| United States  | mil. dol.      | November      | 101    | + 4            | +65      |
| Seventh District states                                | mil. dol.      | November      | 15     | +10            | +53      |
| <b>Interest rates</b>                                  |                |               |        |                |          |
| week ending  |                |               |        |                |          |
| Three-month Treasury bills                             | percent        | 1/12          | 3.27   | -12            | -30      |
| Federal funds rate                                     | percent        | 1/12          | 3.71   | + 4            | -13      |
| Government bonds ( <i>long-term</i> )                  | percent        | 1/1           | 5.60   | - 1            | - 9      |
| <b>AGRICULTURAL TRADE</b>                              |                |               |        |                |          |
| Agricultural exports                                   | mil. dol.      | November      | 629.2  | +35            | -13      |
| Agricultural imports                                   | mil. dol.      | November      | 291.0  | + 2            | -34      |
| <b>FARM MACHINERY SALES</b>                            |                |               |        |                |          |
| Farm tractors  | thousands      | October       | 16,935 | +16            | + 2      |
| Combines   | thousands      | October       | 6,441  | +29            | + 8      |
| Balers   | thousands      | October       | 2,193  | -41            | - 1      |

<sup>1</sup>Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.