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94th Congress }
2d Session }

COMMITTEE PRINT

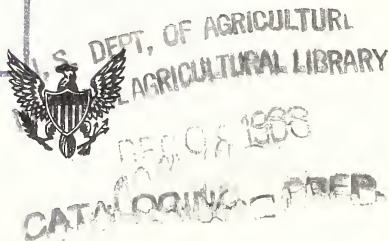
1977 U.S. AGRICULTURAL OUTLOOK

Papers Presented at the National Agricultural Outlook
Conference Sponsored by the U.S. Department
of Agriculture—Held in Washington, D.C.,
November 15-18, 1976

PREPARED FOR THE
COMMITTEE ON AGRICULTURE AND
FORESTRY
UNITED STATES SENATE

DECEMBER 10, 1976

Received by: *IND*
Indexing Branch



Printed for the use of the Committee on Agriculture and Forestry

U.S. GOVERNMENT PRINTING OFFICE

78-885 O

WASHINGTON : 1976

Historic, Archive Document

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A WHEAT PRODUCER'S OUTLOOK

(By Winston Wilson, President, Texas Wheat Producers Association)

Current prospects for the 1977 wheat crop appear to be good to excellent. Planted acreage is not significantly different from last year. There has been a shift of some irrigated acreage to other crops, but the overall effect will be slight. One factor which could have a substantial effect on harvested acreage is the possibility of cattle "graze-out" in Texas, Oklahoma and parts of Kansas. The extent of this practice will be determined by wheat and cattle price relationships and the amount of wheat growth in the next few months. At this point, it is too early to predict what the results will be.

Prior to the 1972-73 crop year, the U.S. had a long history of production controls and limited export levels. In 1972, with the large sale to the USSR, a change in policy direction took place. The decision was made to move toward full production in wheat and feed grains. The USDA allowed, and in fact specifically encouraged, "fence to fence planting" with a "free market" price orientation.

Grain farmers responded to this new policy with successive record or near-record production and, due to continued world shortfalls in grain production, prices were adequate and in some cases quite good. As a consequence, loan levels and target prices were largely ignored and not considered relevant to the "new era" of agriculture. At the same time, many voices were raised, both in government and in the private sector, calling for the establishment of a grain reserve.

On several occasions the government felt it necessary to suspend export sales for various reasons; the most recent being the suspension of sales to the Soviet Union, culminating in October 1975 with the signing of the bilateral agreement.

The wheat producer's view of the Russian agreement differs considerably from that of the USDA. The fact that the Soviet Union purchased in excess of eight million tons during the first year of the agreement, when only six million tons were required, would suggest that their purchases were based more on need than on a specific desire to comply with the provisions of the agreement. The net result? The roughly five million tons of sales lost during the embargo were just that, a loss to American agriculture and the U.S. economy.

The 1976 crop year varies radically from the experience of the preceding years. The U.S. has another near record crop, but this time there has been no significant shortfall in other major production areas of the world. Carryover is predicted to approach one billion bushels and prices are at a three-year low and, at this time, are not covering variable out-of-pocket production costs.

In light of this carryover and price situation, it would appear that the logical consequences would be a sharp reduction in planted acreage, but this has not been the case. There are two primary reasons for the present high levels of planted acreage. First there is the lack of a realistic alternative crop in a large portion of the wheat area. The second factor is the wheat growers' intermediate and long-term commitments of capital investment (most of it borrowed) during the rapid expansion of production during the past three years. This investment is not easily withdrawn in the short run, and as a consequence, farmers are hoping to recapture at least some portion of their fixed costs in order to make some sort of payment on their intermediate and long-term loans.

An additional complication is the fact that producers are having to hold the bulk of the carryover stocks. In effect, a reserve has been created and wheat farmers are paying the cost of financing and storing this reserve. These costs, combined with the financing of the 1977 crop, are placing a real strain on lending institutions in the wheat area. The recent increase in CCC loan rates has eased this situation to some extent, but since these loans are only of 11 months duration, a real crisis could occur in 8 to 12 months, when most of these loans will mature.

In my judgment, if there are no significant changes in the world wheat situation, or applicable government programs within the next 12 months, it is quite likely and indeed probable that there will be a disastrous financial crisis in the wheat industry. Widespread bankruptcy among producers will not be uncommon. At current production costs, farmers can survive one bad year, but the effects of two such years in succession will be impossible to overcome.

The current farm bill is due to expire in 1977. During the development of new legislation, a reassessment of the situation must be made. The determination must be made as to whether it is indeed in the best interest of the United States, and the world community at large, for U.S. agriculture to continue down the road of full production. If this determination is positive, then policies must be adopted which will permit the production segment of the industry to survive during periods of large supplies and low prices. Some suggested changes are: CCC loans of longer duration (at least three years), a loan rate which represents a significant portion of production costs, some public participation in the costs of carrying stocks, and the use of an acreage "set aside" provision when carryover stocks become too large, as they are at present.