

1963

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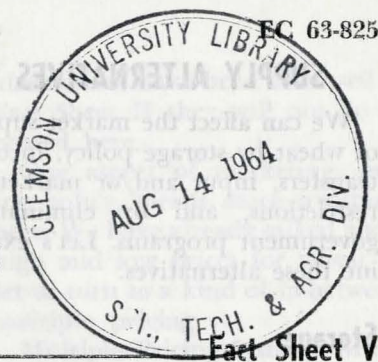
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Great Plains Agricultural Council Publication No. 21

Wheat, People and the Plains



Where Do We Go From Here?

In earlier publications in this series we looked at wheat as a crop and at its importance to the Great Plains and her people.

We looked at the production and uses of wheat and the fact that we've grown more than we've used. We have a wheat problem. But the problem is not limited to the Plains nor even to the United States. It's a world problem. Worldwide, we either produce too much or use too little wheat. We reviewed the role of supply and demand and their effect on prices. We studied the marketing system and the place of governmental policy and foreign trade in wheat.

The history of wheat is interesting. But it's not just the past that interests us now. What really counts is the future.

What is that future? How do we discover it?

We don't! We decide—not discover—the future by the choices we make now and continue to make in the years ahead!

We've studied the past, and had an opportunity to study its successes and mistakes. Where do we go from here?

Some people say, "regrassing the Plains is the solution." Admittedly, some wheat land in the Plains is "marginal" and could well be regrassed; but widespread regrassing of the Plains is hardly feasible—either economically or in terms of public policy.

Some people say, "let's return to 'free markets'." This would mean removal of all production and marketing controls and price supports. Farmers could plant as much as they wanted and would take their chances in the market.

These are the most extreme solutions. In between are a great many possibilities. A variety of ways may be used to adjust production. We can try to increase use of wheat. We can make improvements in the

wheat marketing system. There can be various degrees of governmental controls, or no programs at all. We have many choices.

Any decision will have an impact upon the Plains and her people. Wheat has been more than just another crop—it has been the life blood of the Plains. When we look at the choices, remember that they are choices which will affect not only a crop, but also a region, and its people.

We are looking for—and hoping that there exists—a course of action which will result in the best use of resources in the Plains for the people of the Plains and for the national welfare.

BEHIND THE CHOICES

The wheat-producing nations of the world have the capacity to grow more wheat than has been used. The need is to find new uses for the resources that have contributed to over-production or to expand outlets for wheat.

One possibility of increasing wheat usage involves lowering

price, but that may also mean less profit to producers. This is so because the domestic food market will consume about the same amount of wheat regardless of price, although there would be some increase in sales of wheat for feed and possibly for industrial and export uses.

We should distinguish between "reserve" and "surplus" and work toward eliminating the surplus.

Let's look at some of the proposals to help "solve" the problem. We've grouped them into supply, use, and marketing alternatives. In addition to describing how the alternatives may work suggestions have been made as to their probable consequences.

We have not listed all the possible alternatives. You may suggest other approaches.

No alternative should be considered by itself. Probably the "best" solution will include several parts of one or more of the alternatives.

Before going into alternatives we need answers to questions like these:

What really is the problem?

Whom does it affect? How does it affect them? Does it affect them all alike? Why or why not?

What are the objectives or the goals being sought?

Does the solution take into account all causes of the problem, or does it treat only the symptoms?

Does the solution create other problems?

Are the solutions feasible—economically and politically?

SUPPLY ALTERNATIVES

We can affect the market supply of wheat by storage policy, income transfers, input and/or marketing restrictions, and by eliminating government programs. Let's examine these alternatives.

Storage

Wheat storage policy is determined by the answers to:

"How much shall be stored?"

"By whom?"

"Where?"

In the past, storage policy has been governed largely by price support policy. More recently the desirable amount of wheat in storage has come under considerable discussion.

Since we are not now using our full capacity to grow wheat, and, since many people consider carry-over to be in excess of "reserve" needs, it is unlikely that developing storage policy will favor increased storage stocks.

To increase stocks—or even to continue present levels—storage means a higher or continued cost to the public. The producer and the grain handler both want maximum returns from use of their resources. The taxpayer wants relief from high government costs. There are conflicts in these goals.

How much wheat is a reasonable amount to have in reserve?

Should there be different reserves for each class of wheat? How does this compare with current carry-overs of the various classes?

Over how long a period would you spread out any desired adjustments?

Who provides the storage depends in part upon whether the stocks should be held in production areas or in areas of consumption. If the government stores wheat, it must own storage facilities or rent space from commercial interests.

Recent action to reduce surplus has idled large amounts of storage facilities. It is estimated that private storage capacity exceeds requirements by 20 percent or more. Since government policy has been to hold most CCC stocks in private storage, a policy of reduced carry-

over has put some firms under severe pressure.

The question of "how much" may determine how many storage firms can remain in business in the Great Plains and elsewhere. For a particular firm the "who" and "where" of government storage may mean life or death.

Increases or decreases in storage stocks may temporarily relieve or aggravate market problems. In either case long run problems of producers are not solved by storage policy alone.

Who should store the wheat reserve? Producers? Handlers? The Government?

Should government pay the storage costs? If not, who?

Where should wheat be stored—where it's grown or where it's to be used?

Decisions on storage have implications for other supply and use alternatives, since storage must be considered as a part of the total supply available.

Income Transfers

In some countries the government pays producers the difference between the "support price" and market price. There are other ways to link income transfers to production, price, or income guarantees.

Not all income transfers need be paid by the public treasury. For instance, a system of multiple prices would pass costs on to the consumer through the market.

Until the surplus problem is solved, high wheat price supports without some form of effective production control are unlikely. High price supports and the subsequent storage have become too costly to be politically acceptable without effective controls.

Support rates determine the cost of grain acquired by government; they cause more grain to be diverted to storage. More grain in storage increases CCC costs for storage and administration of the storage program. Market prices must go up to attract wheat to commercial channels, bringing about a rise in consumer prices.

We haven't had much experience with low price supports. Low sup-

ports could serve as a "floor." Unless the supply decreased radically, market prices would likely drop close to the "floor" support price, the price of feed grains, or the world wheat price—whichever were higher.

Do you think price supports or some form of subsidy for wheat is necessary?

From what you know about supply-demand relationships, how high do you think wheat price supports should be?

What effect would lower wheat price supports have on wheat producers, on the Great Plains economy in general?

Input Restrictions

"Input" is any production item—credit, fertilizer, labor, land, machines, management, seed, etc. Input restrictions can take the form of discouraging, prohibiting, rationing or taxing the use of productive items.

To the extent one input can be substituted for another, input restrictions are not effective in controlling production.

Under acreage allotments, farmers use more fertilizer, better seed and cultural practices to step up yields. They follow the logical self-interest principle of making the best use of resources to maximize income. Another problem is that input restrictions may not result in the best mixture of resources. Wheat could be produced at a lower cost per unit without input restrictions.

It is possible, however, to restrict the use of one or more inputs so severely that it becomes impossible to compensate for the loss by substituting other inputs. In our society this is unlikely unless high incentives are involved, as was the case in land retirement.

Attempts to control production through input restriction may affect producers differently. A reduction in acreage in high yielding areas would reduce total production more than a similar reduction in areas of low yield.

Input restrictions may also have different effects on the sellers of the various kinds of inputs. For

example, acreage reductions may lead to increases in fertilizer sales but decreases in machinery sales.

Input restrictions may be either compulsory or voluntary. Let's take acreage diversion (or land retirement) as an example.

Compulsory acreage diversion requires the producer to comply to secure benefits. If he doesn't comply, he may be subject to penalties.

Voluntary diversion is in the form of compensatory payments for taking land out of production. It may include permission to plant non-surplus crops. Soil-conserving practices on retired or diverted land may be required. The same purpose—reducing productive acreage—could even be accomplished by government rental, outright purchase of the land, or purchase of production rights.

Unless acreage diversion or land retirement is made economically attractive, farmers are not likely to support such a program.

Land retirement or diversion programs are subject to many of the same shortcomings as restrictions on use of other production inputs.

Farmers tend to farm non-diverted acres more intensively. Growers who don't take part may increase their production. Marginal farmers are more likely to take part in a voluntary program than those who farm on a larger scale or more efficiently. Thus, production does not decline as much proportionately as does acreage—a criticism of the Soil Bank program.

Voluntary input restrictions are more palatable politically to farmers than are compulsory restrictions.

When complementary programs, such as retraining and relocation, and resource and/or economic development, accompany input restriction programs, they are more likely to succeed. Complementary programs attempt to employ the restricted or under-used resource more productively—particularly the human resource.

How would uncontrolled production affect wheat supply and prices?

Should any restrictions be placed on wheat inputs? What input re-

strictions could we most effectively use to limit production?

How foolproof would they be—would they really be effective, or might substitution of other inputs reduce their effectiveness?

Could input restrictions be achieved voluntarily or would subsidies—even compulsion—be required?

What are some alternative uses of wheat inputs? Are they economically feasible? Might these other uses cause problems in a new area? What problems?

What complementary programs are needed in addition to farm adjustment programs?

Marketing Restrictions

This is an indirect approach to reducing output. Producers may be free to produce the commodity, but use or sale is regulated. To the wheat grower, this usually means bushel quotas. They may or may not be combined with input restrictions.

If marketing restrictions were used alone, and were known before planting time, most producers would attempt to gear their production to the quota which they could market. In good crop years, farmers would store excess production as insurance against poor crop years. Marketing restrictions would likely increase on-farm storage and farmers' use of bonded elevator storage.

A multiple-price system would require some form of marketing quotas to assure a "fair" division of the market by uses. Such a program would have been provided under the "yes" vote alternative of the 1964 wheat program.

Equitable distribution of marketing restrictions, like assigning input restrictions, poses a problem. Past history is the basis most often used; but this tends to freeze production patterns and to discourage the most efficient use of resources.

Marketing restrictions could be made negotiable. More efficient producers could buy marketing rights from less efficient growers. Once wheat marketing rights for a certain piece of land were sold,

that land could not be used for wheat production.

Marketing rights could be assigned to people, rather than to the land. These rights would revert to the government when the holder retired from farming for any reason. The government could then reassign or withdraw the rights. Such a system may not be politically attractive and could be open to claims of favoritism. Some variations of these procedures (i.e., negotiable rights assigned to people) are also possible.

Marketing restrictions would also affect agriculturally-related businesses. Grain handlers would have reduced business which might increase unit marketing costs. Sellers of production inputs (such as fertilizer and machinery) would have less business.

Historically we have been reluctant to apply either input or marketing restrictions with enough force to cut total production or marketing effectively over a sustained period. Either method—if used with sufficient determination—or a combination of the two, could be effective in reducing wheat output. Both would have high costs—economically and socially.

Could marketing restrictions without input controls effectively regulate surpluses and the flow of wheat to the market?

What kind would most likely be effective? Would subsidies be needed?

Do we need to regulate both inputs and marketing (with or without subsidies) to control supply?

What combination would be most effective, the most equitable for producers, the least likely to produce adverse effects on input suppliers, the marketing system, society in general?

Could marketing restrictions be made effective without governmental controls through such means as producer cooperatives?

No Government Wheat Program

Discussion of storage policy, income transfers, and input and/or marketing quotas has been primar-

ily concerned with the role of government in wheat marketing. Many people believe that governmental influence in crop production, marketing and storage should be limited and indirect.

Specifically, they don't want marketing quotas or input controls. But often they don't rule out price supports at some low, disaster-preventing level.

Let's imagine a situation in which "the government got out of agriculture." Research studies give us some clues as to what might happen under "free" prices and unlimited production.

If "the government got out of agriculture," there'd be a substantial drop from current wheat prices. At these lower prices we could expect lower farm incomes, lower land prices, reduced profit for agriculturally related businesses, reduced tax bases, and increased difficulty in financing community services such as roads and schools.

Stocks now in government hands would offer competition to current production if they were thrown on the open market. P.L. 480 could still be used to deplete government-held stocks over a several year period.

Lower wheat prices could make U.S. wheat more competitive in the world market. Unless other countries changed their policies of protecting their own wheat growers, we couldn't take full advantage of a domestic price decline.

A change in the U.S. to free market prices, unrestricted production and world market competition would likely produce some friction with other major wheat exporters and would disrupt the International Wheat Agreement.

These "ifs" would make it difficult for the U.S. to increase exports as a result of lower U.S. wheat prices.

Resource adjustment would take place according to the relative profitability of growing wheat as compared to other crops. Wheat would continue to be a major crop in the Plains, since other grains and grass are likely to be less profitable over much of the Plains. In other areas,

more attractive alternatives may exist.

Lower wheat prices and unrestricted wheat production would result in conflict with feed grain producers, if wheat replaced some feed grains as livestock feed and thus added to the total feed grain supply. The wheat problem cannot be solved in isolation.

The net short run effect of a free market for wheat would be a substantial drop in wheat producer's incomes. Farm consolidation and resource recombination would be speeded up.

Long range effects are less predictable. Production would stabilize at some new level, but prices would be lower than at present—unless there was a great expansion in demand. The ending of price support and storage programs would result in savings to taxpayers.

Would you be better off with a policy of a free market and unrestricted production? Immediately? After full adjustment?

How would others—feed grain and livestock producers, the grain trade, people in agriculturally related businesses or communities in the Plains—be affected by free prices for wheat?

USE ALTERNATIVES

In Fact Sheet I we discussed the uses of wheat: food, feed, seed, industrial uses, and export. What are the prospects for increasing those uses?

Domestic Uses

Any sizable increase in any category of use would help relieve some of the pressure on wheat supplies and production capability.

Food Use: There has been a downward trend in domestic per capita consumption of wheat for many years. Many new products using wheat have been introduced. Consumption subsidy plans have been tried. But the trend persists. A look at the past suggests that the likelihood of increased domestic per capita food use is small. However, new food uses developed by research—and aggressive merchan-

dising of them—have helped the food industry prevent more drastic declines in food uses.

Feed Use: Livestock feed use could be expanded if the price of wheat were allowed to fall so that wheat could compete as a feed grain.

Could wheat producers profitably sell wheat at feed grain prices (at, say, \$1.00-\$1.25 per bushel)?

How much wheat could be marketed as livestock feed without depressing other feed grain and livestock prices? How would feed grain producers regard competition from wheat?

Industrial Use: Prospects for increased industrial uses of wheat are slim. Very low wheat prices, subsidies, or a unique usage would be required before industrial use of wheat may be expected to increase.

During recent years industry has developed substitutes for agricultural products more often than agricultural products have been adopted for use as industrial raw materials. Many industrial uses of agricultural products developed by research have never been utilized because there is often a great difference between what is technologically possible and what is economically feasible.

Seed Use: This will continue to be minor. Only about 5 percent of the crop is now needed for seed.

Exports

U.S. wheat exports have exceeded 600 million bushels in recent years and may reach 900 million in 1963-64. Crop failures in Western Europe and Russia in 1963 caused a sharp, but temporary, increase in export demand.

Continued sales of wheat to Russia and her satellites in Eastern Europe will depend upon whether food shortages persist because of deep-seated agricultural problems, and upon governmental policies of importing and exporting nations.

Some people feel we've missed good bets for increasing our exports even more. For example, the U.S.—following its policy of not recognizing Red China, hasn't attempted to negotiate wheat trade with

China. Australia and Canada have sold several million tons of wheat to the Red Chinese.

What would the U.S. have lost or gained if we had sold wheat to China? Did the action of Canada and Australia ease competition for other markets?

Do the foreign policy issues involved conflict with agricultural trade policy? Which is more important?

Our most important cash customers for wheat have been Japan, Italy and the United Kingdom. The largest recipients of wheat under our special programs have been India, Egypt and Pakistan.

We have really been doing rather well with wheat and flour exports in recent years. Yet our very success in exporting wheat has brought problems.

Less than one-third of our recent exports have been for cash. And even those have required a government subsidy to make up the difference between domestic and world prices. (See Fact Sheet IV: **Can We Export More Wheat** for details.) The other two-thirds have also moved under special programs.

At current U.S. wheat prices, most exports have involved costs to taxpayers. However justified these exports may be for humanitarian or economic development purposes, the importance of export subsidies concerns the U.S. wheat industry, which is dependent on foreign trade for about half its total market.

Setting aside the effect of PL 480 and other government programs on our domestic wheat "problem"—how important is such foreign aid to friendly and developing nations?

How valuable are these programs to U.S. foreign policy?

Should we maintain these programs of assistance? Increase or decrease them?

The capacity of less developed nations to import U.S. wheat is often limited by one or a combination of the following:

1. Inadequate purchasing power.
2. Dietary preferences for white wheat or rice.
3. Inadequate transportation and storage facilities.

4. Fear of the effect of imports on domestic grain production.

5. Reluctance to become dependent upon U.S. wheat without long term commitments from the U.S.

6. Our interest in promoting economic development and independence in some importing countries as opposed to having them become dependent on U.S. exports.

Our capacity to export wheat is limited by one or more of the following:

1. Reluctance of U.S. taxpayer to subsidize either the importing country or our domestic wheat industry.

2. Concern over relations with other exporting countries.

3. A grading system which doesn't always adequately describe milling and baking characteristics.

4. Transportation costs which give some other countries a competitive advantage.

5. Bilateral trading agreements between other nations which block U.S. entry into some markets.

Despite these limitations, we have exported more wheat than we have used domestically since 1960.

What have been the key factors in promoting relatively large U.S. wheat exports? Who has benefited?

The world wheat export prices have recently ranged between \$1.15 to \$1.55 on the farm. Would prices in this range enable U.S. wheat growers to produce for export at a profit?

What limitations are placed on "free" foreign wheat trade? What can or should we do about them?

What modifications are advisable and practicable in U.S. wheat exporting policies, the International Wheat Agreement, etc., to insure continued high—or increased—exports?

MARKETING ALTERNATIVES OR ADJUSTMENTS

How much wheat finds its way into both domestic and foreign use is partially dependent on the effectiveness of our marketing efforts. Thus, no look at alternatives would be complete without an inspection of some of the ways people have suggested the market system could be improved. Since most of these

alternatives have been discussed in Fact Sheet II they will not be repeated here.

One aspect of marketing, pricing policy, merits more treatment here. We have already talked about high and low prices for wheat, so let us turn to a kind of in-between, multiple pricing.

Multiple Pricing Systems: Multiple pricing systems for wheat according to end use, similar to the pricing of milk, have been proposed. In part, wheat is priced under such a system now that export prices are lower than domestic wheat prices. Multiple pricing proposals would systematize the price differences among the various uses for wheat.

It would be difficult to maintain separate stocks of the same type of wheat for different uses. It would, for example, be difficult to prevent a buyer of low-priced feed or industrial use wheat from reselling the wheat for higher priced food uses.

Multiple pricing would require that differential prices be established by mutual consent or law and maintained by strict controls. Without rigid controls, higher prices would tend to fall toward the lower levels.

Prices of wheat for feed use would have to be competitive with prices of feed grains. If corn sold at \$1.20 per bushel, wheat would be priced between \$1.08 and \$1.35, depending on the class of livestock. Wheat could be fed to cattle or hogs at the higher range, and to lambs at the lower range.

Prices of wheat for industrial uses would have to be even lower than feed use prices if wheat were to be competitive as an industrial raw material.

Prices of wheat for domestic food uses could be set at relatively high levels. This would require an important policy decision, whether or not to continue favored treatment of wheat for food. We don't favor corn going into cornflakes, but do favor milk for fluid consumption as compared with "manufacturing" milk.

Prices for commercial wheat exports would probably be near "world" or International Wheat

Agreement price levels. Diverting more wheat to export, industrial or feed uses would lessen surplus pressure and would reduce storage costs.

Multiple pricing attempts to raise farm income by taking advantage of the different demand elasticities for wheat in various uses. (See Fact Sheet II). The income transfer would be made through the market rather than by government.

How best could a multiple pricing system be operated?

Do any of these domestic use expansion programs offer much hope for increasing use of wheat or improving prices or net incomes of wheat growers? What would be the effect on other segments of our economy?

THE OUTLOOK FOR WHEAT, PEOPLE AND THE PLAINS

Changes in wheat production, transportation, storage and marketing methods can be expected. Vertical and horizontal coordination, government programs, contract arrangements and direct buying, rail rates, highway systems, overseas outlets, methods of storage, and utilization research—all these things will affect the flow of wheat through marketing channels in the future.

Improvement in any aspect of wheat commerce will help. Combi-

nations of improvements will help more. Improvements will take time. They will take concerted efforts. All problems will not be solved at once.

Which Way Now?

If nothing else were affected, it would be—at least in the short run—to the advantage of the Plains and her people to grow and export as much wheat as possible. But other producers, other regions and other nations are affected.

The decision on how much to grow and export, how high the price should be, and many other questions involve national and international policy considerations.

Basically the choices we face are to (1) increase domestic uses and exports or (2) reduce production. Either could produce benefits; both would involve costs.

Which way and how far do we go?

This our nation—through the democratic process—must answer. Even so, governmental action alone can't solve all the problems or implement all the needed changes.

What can and should you—the producer, the Main Street businessman, the professional man, the technician, the artisan, the laborer, the machinery dealer, the local government official, the elevator operator, the grain exporter, the miller—do to help develop a better future for the Plains and her people?

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This publication is one of five in a series, "Wheat, People, and the Plains" prepared by the following Agricultural Economists from the Land Grant Colleges or Universities of the Great Plains States: Raymond C. Stack, Colorado; Robert J. Bevins, Kansas; William Ewasiuk, Montana; Everett E. Peterson, Nebraska; Norbert A. Dorow, and H. W. Herbison, North Dakota; James R. Enix, Oklahoma; Thomas D. Aaron, Texas; Earl Moncur, Wyoming. E. Dean Vaughan served as chairman of the group while an economist at Montana State College and continued as a consultant after joining the staff of the Federal Extension Service, USDA. S. Avery Bice, associate director, Colorado, served as administrative advisor. Donald W. Dickson, information specialist, FES, was editorial consultant to the committee.