

EVALUATION OF AGRICULTURAL PROGRAMS IN TERMS OF ECONOMIC GROWTH, FOREIGN TRADE, AND POLITICAL FEASIBILITY

Feed Grain

*Francis A. Kutish, Extension Economist
Iowa State University*

The feed grain program probably has the strongest claim to success of the major farm programs of the present administration. The program has been somewhat expensive. But it is showing results: Corn Belt farm income has been maintained; excess stocks of feed grains have been reduced; consumer food costs have not risen significantly in the livestock, poultry, dairy area; and no subsidy has been required to move corn in the export field.

Nevertheless, feed grain stocks still remain excessive, and a further reduction in stocks is necessary.

The feed grain problem stems from the fact that output of feed grain per acre has risen faster than demand. Also, output of feed grains per man has risen faster than demand. This rising output is the result of improved seed, increased use of fertilizer, insecticides, labor saving machinery, and denser planting. Finally, all these forces have interacted to give an additional upward push to output.

From 1952 to 1960, the problem of output expanding faster than demand was met by moving the excess production into government hands. Carryover stocks quadrupled in the eight years between 1952 and 1960. Stocks increased from about 20 to about 85 million tons in round figures during this period. During the last two years of this period, 1959 and 1960, the annual rate of expansion was between 8 and 10 million tons per year.

The adjustment choice was expanding demand or reducing production. In either case the job was to bring output and effective demand into line. An additional problem was reducing burdensome and costly excess stocks which were costing roughly about 18 cents per bushel per year for corn.

One way to reduce stocks is to produce less than is used—then to make up the difference from the sale of government-owned carryover stocks. The only other choice is just to destroy these stocks. Once the stocks are reduced, production can be expanded to equal current demand. The feed grain problem is comparable

in many respects to problems of excess production in industry. If the industry has plant overcapacity, the solution is mainly one of closing plants. But if the stocks are excessive due to short-term inventory fluctuation, then plants can be shut down temporarily or operated at less than capacity during a temporary period until inventories are brought more nearly in line.

Feed grain problems differ from wheat, cotton, and tobacco problems in some basic respects. With wheat, cotton, and tobacco, all farmers are surplus producers. But in feed grains, some farmers and also some areas are deficit producers. Therefore, producers have differing attitudes depending upon whether they are in a deficit or surplus producing situation. Because feed grains are not strictly a cash crop, some look on feed grains as a cost while others look on them as a source of income.

The excessive carryover stocks of feed grains in early 1961 had reached the stage where Congress became concerned about the situation and passed the 1961 feed grain program. A total of 1,145,974 farms, or 42 percent of all farms growing corn and sorghum grain, participated in the 1961 feed grain program. Farmers were paid for diverting a total of 25.2 million acres under the program. In addition, 28.3 million acres still were retired under the Conservation Reserve. Some of these acres had been in feed grain prior to being put under Conservation Reserve. The 1961 feed grain program, as was the case with the Conservation Reserve and the Acreage Reserve under the Soil Bank Programs of the 1950's, paid for more acreage reduction than the actual acreage reduced. The reason for this is: At any particular time, some farmers are expanding crop acreage. These farmers are likely to stay out of the program and proceed with their acreage expansion. At the same time, others are contracting acreage. Such farmers are inclined to go along with the program, particularly when they are going to be paid for what they had intended to do anyway. The farmers who stay out of the program and increase their acreage—partially offsetting the reduction made by those who participate—are the ones who cause the slippage.

On many farms, the 1961 feed grain program combined with the higher soybean price support operated to reduce corn and oat acreage and to increase soybean planting. Thus, the program actually also reduced oat acreage even though oats were not directly under control. The 1961 harvested oat acreage was 1.3 million acres less than in 1960.

The 1961 feed grain production totaled 140.6 million tons—14 million tons, or about 10 percent, below the record 1960 crop.

Total feed grain utilization in 1961-62 was about 153.3 million tons, somewhat above the level of the previous two years, partly due to larger exports and continued heavy domestic use. About 15 million tons of feed grain were withdrawn from carryover to meet the 1961-62 requirements, reducing carryover on October 1, 1962, to 71.8 million tons.

About 782 million dollars was paid to growers for reducing the plantings of corn and sorghum grain. Administrative costs covered by direct congressional appropriations amounted to an additional 42 million dollars. The payment thus made, however, was a low percentage of the total value of the feed grain—livestock economy. The average price of corn sold by the Commodity Credit Corporation to finance payments to farmers was about \$1.02 per bushel and for sorghum grain about \$1.82. This differed little from the price that prevailed in the previous year and, thus, had little effect upon meat and livestock prices to the consumer.

To the cost of the 1961 feed grain program should also be added approximately 475 million bushels of 1961 corn and 105 million bushels of sorghum grain taken over in default of CCC loans.

The 1962 feed grain program was essentially an extension of the 1961 program except that barley also was included. Farmers signed up 32.8 million acres, but they were paid for diverting only 28.2 million acres under the program. Actual participation at the final check up proved to be less than the sign up. Total feed grain production for 1962 was estimated at 143.1 million tons. Average corn yields set a new all-time record. Preliminary estimates by the United States Department of Agriculture of feed grain utilization during the 1962-63 feeding year were 154.7 million tons, which should be about 11.6 million tons more than produced. According to these estimates, the carryover stocks on October 1, 1963 will be about 60 million tons.

Farmers received a total of about 684 million dollars in payments for corn diversion, 124 million dollars for sorghum grain diversion, and 36 million dollars for barley diversion, making a grand total of 844 million dollars paid to farmers for diversion. In addition, administrative costs of 29 million dollars were covered by direct appropriation. Thus, the total cash expenditures under the 1962 feed grain program came to approximately 873 million dollars. The average price received by CCC to pay these costs was about \$1.08 for corn and about \$1.81 for sorghum grain. The price was higher in the second half of the year partly due to the drouth scare during the latter part of June 1963. This produced a desire by feed users

to stockpile feed grains and a reluctance on the part of farmers to part with grain.

In addition, CCC is expected to take over about 650 million bushels of 1962 crops of feed grains and to sell them back at a loss. Such losses are again expected to be in the range of 100 to 150 million dollars.

Several important changes were made in the 1963 feed grain program. All grain produced by the participants became eligible for price support. A direct payment based upon the base yield of the permitted planted acres was also made to producers who participated in the program. The loan level was dropped to \$1.07 per bushel.

The 1963 program provided greater economic incentives in some cases than in the two previous years to divert a minimum of 20 percent of the base acreage. Thus, more farmers participated in the 1963 program than in the 1962 program, but fewer acres were diverted under the 1963 program. Therefore, the cost per acre of diversion was higher under the 1963 program than under the 1961 and 1962 programs.

Current stocks of feed grains are still generally regarded to be greater than required to provide an adequate reserve for protection against adverse weather and for national defense. In addition, most observers agree that feed grain production would exceed current markets at recent prices of \$1.00 to \$1.10 per bushel. Therefore, feed grain policies over the next few years should be directed toward reducing feed grain stocks to desirable levels and then equating production with demand at recent prices—which have been reasonably well worked into the cost structure of the deficit producers in the deficit production areas.

One of the important requirements for the future is the establishment of a desired level of feed grain stocks and also a desired market support level for feed grains. Constant pressure is exerted from some sources to increase the loan level for corn prices—without due regard for the fact that as the price of a product is increased, less of that product will be used. This is an important cause for concern for the future—should the price of corn be raised very much to the point where a subsidy is required, then the use of feed grain by both domestic and foreign consumers will begin to be curtailed.

The desired level of feed grain carryover stocks should be specified as a range of figures rather than a precise figure. Precise results from a feed grain program are difficult to obtain in any one year due to variations in participation response and the weather.

Thus, a slight drop in the carryover stocks below the desired reserve stock level in a single year should not be a signal for a higher production that might overshoot the market considerably. A range of figures would permit reduction of stocks to the lower level of the range without immediate action to increase production, which would be required if a single figure were used.

Most of the evidence based upon letters to farm magazines and comments in meetings over the Midwest indicate that at the present time, farmers are reasonably well satisfied except with the general mechanics of the feed grain program. Therefore, the relatively few concerns that are expressed deal primarily with the mechanics of the program rather than the general policy direction.

PART IV

*Improving Policy Education
Programs*

