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RETURNS TO CEREAL PRODUCERS

The principal purpose of a World Grains Arrangement is to bring the supply of grain in balance with available markets. The Arrangement must, therefore, focus on the factors that influence production. Of particular importance in this regard are the price incentives or disincentives that are provided to induce producers of grains to make appropriate adjustments.

In most cases producers adjust their production in response to the average price which they receive for a commodity. However, in the case of more complex price systems such as in the United States or in France, the significant part of the price structure is the return the producer expects for incremental additions to production. This is the marginal return.

The United States' programmes for grain producers are structured to achieve three major purposes:

(1) to minimize the price incentives that cause increases in grain production;

(2) to maintain the incomes of complying producers through payments that are neutral with respect to production in excess of "normal" yields;

(3) to limit the amount of grain moving into commercial markets by requiring acreage reductions in return for the income payments.[1]

These programmes are offered to producers on an individual and voluntary basis. Compliance is achieved through the economic incentives provided by the total programme for each particular grain. Thus, in 1965-6 producers with 84 per cent

[1] In addition to this mandatory acreage reduction the United States Government provides incentives for additional voluntary reductions in crop area. In 1965-6 about 50 million acres (20.2 million hectares) of land were diverted from grain production.

of the wheat acreage and 66 per cent of the feed grain area found it to their economic advantage to comply. The remainder for various reasons felt that they could do better by not accepting the income supports and price guarantees.

Wheat

The 1965-6 programme

The various elements of the 1965-6 programme for wheat can be identified with the major purposes of the programme:

(1) the incentive to increase production on the allotted area is generated by the loan-rate which is $1.25 per bushel ($45.90 per ton).

The non-complier receives no price guarantee. However, the open market in which he sells his grain tends to be supported by the loan-rate so that he expects to receive about $1.25 per bushel ($45.90 per ton)[1];

(2) the income of compliers is supported by two payments: the first is $0.75 per bushel ($27.50 per ton) times the "normal" yield from 45 per cent of the producer's allotted acres; the other is $0.30 per bushel ($11.00 per ton) times the "normal" yield from 35 per cent of a producer's allotted acres.[2]

Since both payments are based on historic performance, they no way induce the producers to obtain yields in the current year that exceed the "normal" level. These payments are production-neutral;

(3) a producer, who wishes to take advantage of the foregoing price and income guarantees, must divert to a conserving use at least 10 per cent of his base acres. This means that he cannot use this land to produce any crop for harvest or for grazing and, therefore, foregoes the income from it. This is the production-negative aspect of the programme.

Producer incentive price

The loan-rate of $1.25 per bushel ($45.90 per ton) is the relevant incentive price for all wheat producers in the United States. The complying producer (once he has decided to participate in the programme) considers the $1.25 per bushel ($45.90 per ton) in deciding the adjustment he will make on his allotted area with

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[1] The complier must bear the cost of storage of grain under loan for at least ten months. In public warehouses this amounts to about 13 cents per bushel ($5.10 per metric ton). The average market price has fallen below the loan-rate in ten years of the past fifteen.

[2] "Normal" yields are estimated on an individual farm basis. For the 1965-6 crop year it was based on the 1959-63 average yield adjusted for years of crop failure.

respect to his cultural practices and the rates of application of fertilizers, weedicides, insecticides and in some cases water. If the total added cost of these practices exceeds the expected total return obtained from increased yields priced at $1.25 per bushel ($45.90 per metric ton) then the farmer obviously would not make the added investment. If the returns are greater he will.

Table 1

Relevant Producer and Market Prices, United States 1963-4 to 1965-6[1]

Price	1963-4		1964-5		1965-6	
	Per. bu.	Per. m.t.	Per. bu.	Per. m.t.	Per. bu.	Per. m.t.
			--- (US Dollars) ---			
Producer incentive[2]	1.82	66.80	1.30	47.70	1.25	45.90
Domestic market:						
f.o.b. elevator[3]	1.85	67.90	1.37	50.30	---	---
f.o.b. Gulf[4]	2.29	84.10	1.76	64.70	---	---
World market:						
f.o.b. Gulf[5]	1.79	65.70	1.78	65.30	---	---
Net export payment[6]	0.50	18.40	-0.02	0.60	---	---

[1] The average class and grade approximates US No. 2HRW ordinary protein.

[2] Average loan-rate at end of the marketing year. This is in fact 13 cents more than the complier is guaranteed.

[3] Average price received by farmers for all classes and grades at all United States points of first delivery. If one considers the cost of hauling and handling from the farm gate to the elevator the price at the farm gate would be $0.04 to $0.05 per bushel ($1.50 to $1.80 per ton) less.

[4] F.o.b. elevator plus handling and transportation to Gulf.

[5] Unweighted average of quotations at the Gulf coast.

[6] Unweighted average of daily quotations.

For the non-complying producer the $1.25 per bushel ($45.90 per ton) is also the relevant planning price which triggers adjustments in farm practices. However, the non-compliers also have to decide how many acres to plant of each of the various crops that are economic alternatives. In cases where non-compliers have many alternatives this becomes a complex decision in marginal adjustments.

Producer incentive prices for 1963-4 and 1964-5 were the loan-rate of $1.82 per bushel ($66.80 per metric ton) and $1.30 per bushel ($47.70 per metric ton) respectively. (Table 1.)

Market price at the farm level

The loan-rate also has relevance as the support of prices which all wheat producers receive in the open market. In many years the market price is below the loan-rate. However, market conditions were such that in 1964-5 the price averaged 7 cents above while in 1963-4 it averaged 3 cents more.

World market price (f.o.b. Gulf)

There are in effect two prices at all United States points of export, a world price and a domestic market price. For example, the world price which is quoted f.o.b. Gulf coast is determined principally by the demand and supply forces in international trade and is to a large degree independent of United States domestic prices. On the other hand the domestic market price f.o.b. Gulf is equivalent to the average domestic farm price, as influenced by the loan-rate, plus the amount it costs to move wheat from the "average" United States elevator to the Gulf coast. This has been about $0.40 to $0.45 per bushel ($14.70 to $16.50 per ton) in recent years.

The quoted world price and the domestic market price at the Gulf coast are seldom the same. In 1964-5, for example, whenever the world price was lower than the domestic price, the United States Government made up the difference. Payments were made to redeem the $0.25 per bushel ($9.20 per ton) export certificate in addition to whatever amount was necessary to equalize the prices. When the situation was reversed only part of the export certificate was redeemed.

On balance, the United States Government made virtually no net export payment in the 1964-5 marketing year. However, for the 1963-4 crop year the payments averaged 50 cents per bushel ($18.40 per ton). Currently, (August 1965) a net payment of 10 to 20 cents ($3.70 to $7.30 per ton) is being paid in addition to the redemption of the $0.30 per bushel ($11.00 per ton) export certificate.

Feed Grains

The 1965-6 programme

The 1965-6 programmes for feed grains embody the same basic purposes and elements as for wheat. However, the mechanics of their implementation is different from wheat and the incentives and disincentives provided differ for each type of feed grain.

The 1965-6 corn programme in indicative of the programmes for corn, sorghum and barley. Its key features are:

(1) the incentive price for corn producers is the loan-rate of $1.05 per bushel ($41.30 per ton). This price is guaranteed for every bushel produced on the allotted acres of complying farms. It also determines the approximate market price level for non-compliers;

(2) two production-neutral payments are made to producers. One is for $0.20 per bushel ($7.30 per ton) for the "normal" yield from the allotted acres; the other is for $0.21 per bushel ($7.70 per ton) for the "normal" yield that could have been produced on the diverted area;

(3) the production-negative feature of the programme is the requirement that a producer must divert a minimum of 20 per cent of his feed grain base to a conserving use. This land cannot be grazed or used for forage production of any kind; it cannot be used to grow any other crop.

Feed grain prices

The important prices in the structure for feed grains are defined similar to those described for wheat. The relevant ones are the producer incentive price, the domestic market price and the world price. (Table 2.) In the past three years the United States Government has not made any export payments on feed grains

Table 2

Feed Grain Prices, United States
1963-4 to 1965-6

Price	1963-4		1964-5		1965-6	
	Per. bu.[1]	Per. m.t.	Per. bu.[1]	Per. m.t.	Per. bu.[1]	Per. m.t.
			--- (US Dollars) ---			
Producer incentive:[2]						
Corn[3]	1.07	42.10	1.10	43.30	1.05	41.30
Sorghum[3]	1.71	37.70	1.77	39.00	1.65	36.40
Barley[3]	0.82	37.60	0.84	38.60	0.80	36.70
Market f.o.b. elevator:[4]						
Corn	1.09	42.90	1.16	45.60	---	---
Sorghum	1.74	38.30	1.90	41.90	---	---
Barley	0.90	41.30	0.96	44.10	---	---
Market f.o.b. Gulf:						
Corn	1.39	54.70	1.42	55.90	---	---
Sorghum	2.21	48.70	2.18	48.10	---	---
Barley[5]	---	---	---	---	---	---

[1]In cwt. for sorghum.

[2]Average farm loan-rate. The effective loan-rate is less by the amount of the cost of storage.

[3]Approximate average grade for each of the respective grains is No. 2 yellow corn, No. 2 milo, and No. 2 two-row feed.

[4]Average price received by farmers at point of first sale, the cost of hauling from the farm gate is not considered.

[5]There are no quotations for barley at the Gulf coast since virtually none is exported from this point.