

10-10-1974

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### Recommended Citation

Rudel, Richard K., "Issues Concerning the Development of a Grain Reserve Policy" (1974). *Economics Commentator*. Paper 53.  
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# Economics Newsletter

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No. 54

October 10, 1974

## ISSUES CONCERNING THE DEVELOPMENT OF A GRAIN RESERVE POLICY

The phase out of Commodity Credit Corporation's grain storage and the resultant reduction in U.S. government-owned grain stocks has again focused attention on grain reserves. Several alternative policies for dealing with the grain reserve issues have been advanced by governmental groups and private business. The adoption of a policy with respect to grain reserves is of concern because of the impact such a reserve has on food prices, foreign exports, agricultural producers, and many other segments of our economy.

Consumers, for example, in the U. S. are experiencing the highest prices for foods ever and, as a result, have often expressed their dislike of these prices. Grain farmers, while achieving peak prices and substantial increases in income, fear a possible price collapse and potential financial ruin because of soaring farm debt and production costs. Foreign countries that have depended on U. S. grain production and stocks for their annual grain supplies and for emergency help during catastrophies are concerned about the availability of immediate and future grain supplies.

Furthermore, the U. S. government has depended on grain trade to contribute significantly to our balance of payments and to assure adequate food supplies for our citizens. At the same time, however, the government has also faced substantial problems associated with inflation which was, at least in part, caused by rapid increases in food prices.

Future policies with respect to the carryover level of grain needed must consider the following factors:

- (1) What demand objectives do we want to satisfy--
  - (a) domestic
  - (b) export for cash
  - (c) foreign aid, or some combination of these?
- (2) What level of risks and uncertainty should be allowed for in grain carryovers -- a one-year, two-year or no domestic grain reserve?
- (3) What level of grain prices are acceptable (including the response of production and consumption to the price levels)?
- (4) If there is a need for a reserve, by whom should these stocks of grain be owned and managed?
- (5) Should we share the burden of grain reserves with the rest of the world through multilateral or bilateral agreements?
- (6) What role will other nations have in the world grain markets?

In the past most of the policies dealing with grain reserves were based on public programs such as commodity credit storage, government-owned stocks, price supports, acreage controls, large exports of grain through foreign aid programs, and a national goal of grain-fattened livestock. The objectives of these public programs were to provide for price stability, promotion of food for peace, foreign aid, and for handling of surplus grain. In short, most policies were based on disposing of our grain.

Obviously the environment in which the past grain reserve policies were developed have changed significantly. Grain stocks have been depleted in the United States. Government agricultural policies have been altered to increase price supports by 70 to 100 percent over

1970 levels and acreage controls have been nearly eliminated. Exports demands have greatly increased and, even more importantly, they are now selling for hard currency or cash rather than under the heading of foreign aid. The national goal of grain-fattened livestock still exists; however, some livestock specialists and producers are suggesting a move toward more grass and roughage basis for fattening cattle.

With these changes in environment the current issue is whether grain carryovers should be stabilized within some boundaries. The reasons being advanced for having contingency grain stocks are (1) to meet unforeseen grain shortages that could develop because of reduced production in the United States or the world, and (2) to stabilize market prices.

Various groups take differing views concerning these two factors. Producers of grain, grain processors such as millers, and exporters of grain have benefited because of the increased prices and the ability of many of these groups to pass cost increases on to consumers. Livestock feeders, dairymen, and poultrymen have not benefited as much because

the production process is long and rapidly increasing feed costs have not been passed on to consumers.

There are also many issues and alternatives raised about who should hold and manage grain reserves. Some groups take the view that public programs should again be developed to manage these reserves. Other groups propose that grain reserves be left mainly to producers and/or existing marketing institutions (users). Each of these groups have developed evidence in favor of their views and critical of their opponents' views. The forthcoming newsletter will examine this evidence and discuss in more detail who might hold and manage grain reserves.

### Summary

This discussion of the issues for establishing future policies for grain reserves certainly has not covered all possibilities. The importance of this topic needs much more attention and consideration. It does point out, however, the need for immediate concern and input by the affected parties if a compromise is to be reached and a satisfactory grain reserve policy developed for the future.

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