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SOME ECONOMIC IMPLICATIONS OF GRAIN RESERVES

The ownership and management of grain reserves will be decided by politicians who are in turn influenced by evidence that various interest groups present to them. Currently, the evidence has focused on economic implications. One of the implications is the costs of storing and caring for the grain reserve. These costs include shrinkage, insurance, interest, taxes, fixed and variable costs for storage facilities, and the risk of price declines. Whoever owns and manages the reserves must receive or will most likely demand compensation for these costs.

The potential economic effect of a reserve on grain prices is another important factor. If the grain can be isolated from the normal market system by legislation or some other mechanism, then its effect on grain prices may be minimized. If, however, the reserve is only partially isolated from the normal market then its effect on grain prices could be substantial.

Past grain surpluses, for example, were not isolated from the market and as a result prices for grain were depressed. Numerous federal government programs were started to compensate for these low prices. Programs included price supports, commodity credit storage, low-rate interest loans for building storage, and government payments or subsidies to farmers. These program costs were born by tax payers most of whom were also consumers. Thus, while consumers were not paying the price at the grocery store, they were paying it through taxes.

Another economic concern is who should own and manage the grain re-

serves. Various interest groups, individuals and others have advanced evidence supporting different view points on this issue. Currently, alternative solutions being offered for ownership and management of the reserves include producers, users, or government.

Producer Ownership and Management

One factor favoring producer ownership and management of grain reserves is substantial on-farm and local elevator storage available in most states. Initially, a grain reserve at this level would place the price risks and costs of storing grain with the producer. Producers would have the advantage of more readily participating in any gain in market prices and could also obtain Commodity Credit Corporation loans on reserve stocks of grain. If the market did not provide compensation to cover the risks and costs, however, producers might be unwilling to accept the grain reserve task unless a government program to finance such storage was developed.

Critics of producer ownership and management have claimed that market prices would not stabilize and reserves would not be available in large enough quantities to satisfy contingency demands that might arise. To support their claims, opponents argue as follows: 1) that when grain prices are rising, growers tend to hold stocks off the market and wait for even higher prices; 2) farm-stored stocks require too many individual decisions to sell and to ship to be effective in meeting demands.

User Ownership and Management

Grain users, acting collectively and with the addition of more storage

capacity, could own and manage contingency stocks of grain. This would insure users of an available supply in case of shortages and would concentrate the holding of reserves into large enough quantities that availability would not be a problem.

Critics of user ownership and management advance three main arguments:

1. With inflation and high interest rates the costs of holding inventories would be substantial; therefore, many users may not be able to hold reserves.
2. More concentrated holding of grain and collective action on the part of users could provide the basis for manipulation of prices rather than price stability.
3. The risks associated with a price drop could be negated to some extent by the use of futures contracts; however, this does not assure that grain supplies would be available. It might again be necessary to develop a government program to compensate users for the risks and costs associated with grain reserves.

Government Ownership and Management

Supporters of this alternative

state that indirectly the whole consuming public benefits because adequate grain reserves result in stable and lower price levels for grain. They acknowledge, however, that past programs for surplus grain stocks have been costly and have entailed other problems of social and political concern.

Opponents of this alternative have stated that grain reserves owned and managed by the government unduly depress farm prices and are subject to political bargaining and influencing by vested interest groups. Additionally, critics have charged that past government programs have misallocated resources and provided for "giveaway" foreign aid.

Summary

This discussion has identified some of the economic implications of grain reserves. For convenience, alternative solutions were categorized and presented separately. It is likely, however, that future grain reserve policies will encompass some combination of these alternatives. Increased interest and input by all affected parties would help inform politicians of the consequences and importance of grain reserve policies that would be grossly unfair, unworkable, or result in inefficient grain reserve programs.

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