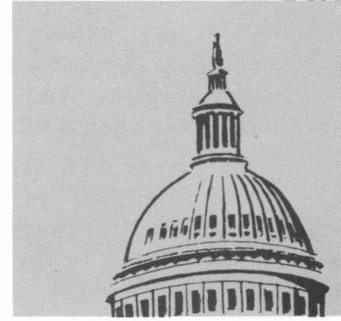


# GRAIN RESERVES: ISSUES AND POLICY CHOICES

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## WHAT IS THE ISSUE?

The main issue is whether grain reserves shall be held by the U.S. government for the purposes of meeting emergency needs and reducing year-to-year market price variations, or whether publicly-held grain reserves will continue to be a by-product of supporting certain farm commodity prices. From this basic issue, several related questions arise. What instabilities come from no, or inadequate, reserves and who is affected? Who gains and who loses from reserves? How large should reserves be? What mix of commodities should be included? What price and quantity rules should be established for acquiring and releasing stocks? What will reserves cost and who will pay this cost? Is the United States morally obligated to stockpile food for the world's hungry people?

## WHY IS THIS AN ISSUE?

The main reasons given for having commodity reserves are:

1. To have adequate supplies for domestic needs from one production period to the next;
2. To reduce price risk and improve efficiency in grain production by encouraging long-term investments in agriculture;
3. To provide the basis for more stability in the livestock and poultry industries;
4. To stabilize food prices to consumers;
5. To maintain or enlarge exports and encourage trade liberalization by being a reliable supply source;
6. To facilitate food assistance programs for needy people at home and in other countries.

Recent interest in publicly-held grain reserves comes from: year-to-year variations in supply since 1972, fear of food shortages in poor crop years, export embargoes, increasing commercial exports, higher food prices to consumers, and sharp fluctuations in grain prices.

World grain stocks (including rice) averaged 170 million tons in 1960-72, enough for three month's consumption. By 1975, stocks had declined to 123 million tons. With good crops in 1976, stocks are estimated to rise to 150 million tons at the beginning of 1977-78 marketing year.

From 1950 through 1971, food-deficit countries relied upon the U.S. and other major grain exporters to carry sufficient stocks to stabilize supplies and prices. This confidence was badly shaken by the set of circumstances occurring in 1972-75 which depleted grain stocks

in the U.S. and world-wide, causing concern over possible food shortages.

## GRAIN RESERVES UNDER THE 1973 ACT

Provision was made to establish a reserve of inventories not to exceed 75 million bushels of wheat, feed grains and soybeans to alleviate distress caused by natural disaster. Except for this small reserve, the Act continued the price support loan and storage program which has been used since 1938 to provide floors under prices of specified products. Reserves are acquired when farmers deliver these products to commodity credit corporation instead of redeeming their loans. CCC stocks can be released when prices rise above certain levels.

Under this non-recourse loan program, government-held stocks tended to accumulate in the 1950's and 1960's as agricultural technology boosted total crop production more than enough to offset supply-reducing effects of land retirement and additional exports under P.L. 480. Once acquired, these surpluses were regarded as costly and price-depressing. In times of greatly increased foreign needs due to war or crop failure, the surpluses are suddenly transformed into "strategic reserves."

Few farmers participated in the loan-and-storage program in 1973, 1974, or 1975 but they are doing so for 1976 wheat and feed grain crops. When these loans mature, CCC will again own stocks of grain unless market prices rise enough so farmers pay off the loans.

## FOOD RESERVE POLICY CHOICES AND THEIR EFFECTS

The principal policy choices in regard to reserves are: stocks held by producers and marketing firms with little government intervention; supplementary government-held stocks; multi-national reserves held by importing and exporting nations; international commodity reserves; and some combination of these.

## Reserves Managed by the Private Sector of the Economy

Producers and marketing firms own and control reserves. They decide how much to store and when to sell or buy. In good crop years prices will decline; when crops are short prices will rise sharply.

Development of private grain stocks would be consistent with a farm policy of setting prices in the market. Under this alternative the stocks would primarily be used for commercial objectives. Producers hold grain

stocks because they expect the price to rise more than enough to cover their storage costs. The grain trade would tend to be more concerned with volume and margin per unit rather than holding stocks for humanitarian purposes. Responses to an emergency might be too slow.

When food is stored, someone pays storage costs. These costs will either be passed back to the producer as lower prices or forward to the consumer as higher prices.

U.S. experience in marketing years 1972-73, 1973-74, and 1974-75 demonstrated what can happen to prices received by farmers and paid by consumers for food when stocks are depleted due to production shortfalls and greater foreign demand. This may lead to export restrictions and uncertainty among importers as to U.S. reliability of a supply source.

Consequences of private reserve management are:

(1) Price instability to producers due to variations in world supply and demand conditions, but higher average prices over time;

(2) Higher food prices in years of short crops but little, if any, decline in years of abundant supplies due to the inflexibility of marketing margins;

(3) Possibility of under or over-holding of reserves by producers and processors because of inadequate market information and lack of organization; and

(4) Low government costs for administering, storing and maintaining food reserves; storage costs shared by producers and consumers.

#### Supplementary Government-Held Reserves

Some people feel that grain stocks carried voluntarily by producers and the grain trade will be inadequate and that the nation's food policy goals will be more nearly achieved by a well-managed public grain reserve program.

One proposal for managing reserves, in effect, sets both upper and lower limits on farm prices. At the lower limit, the loan prices, stocks are bought; at the upper price limit, stocks are released. A variation of the release provisions calls for disposal of a certain percent of stocks for each 10 percent increase in price above the release activating price. Prices fluctuate between the two levels. The general price level is the market price determined by quantity of stocks. This procedure may come into operation if the 1973 Act is extended but with higher target prices and loan rates.

Another approach establishes a level of reserves which the government holds until a policy decision is made that an emergency exists, justifying release of stocks.

Advocates of publicly-held reserves point to these desired results: (1) increased price stability, (2) reduced risk, (3) less need to impose export embargoes, and (4) greater consumer assurance of an adequate and dependable supply of grains. Price stability reduces risk in livestock production. It makes marketing decisions easier for grain farmers. It reduces swings in food prices and thus helps reduce inflationary pressures as well as con-

sumer and labor pressures on government.

Those who oppose government reserves suggest that reserves: (1) distort market signals, (2) depress farm prices, (3) discourage importing countries from holding reserves — placing the full burden of reserves on the American taxpayer, (4) are subject to political manipulation and (5) are costly to manage and hold.

#### Reserves Held by Importing and Exporting Nations

Besides establishing a supplementary publicly-held reserve, the U.S. government could encourage other countries to establish their own grain reserves. An additional stabilizing influence on world commodity markets could result from setting up a world-wide information system on crop prospects and national grain stocks. Bilateral or multilateral import-export agreements might be considered as a way to reduce foreign demand uncertainty. So long as free trade does not exist and nations maintain programs to protect their agriculture, grain reserve policy is likely to coexist with export restrictions, import controls, farm price supports and production controls.

Consequences of multinational reserves are:

(1) Greater stability in world commodity prices;

(2) Adequate supply of food for U.S. consumers;

(3) Lower cost to American taxpayers than previous storage programs;

(4) More efficient food production;

(5) Location of reserves where needed; and

(6) Possible depressing effect on grain prices.

#### Reserves controlled by an international organization

Acquisition and distribution of emergency grain reserves by an international organization has been proposed as a method of preventing mass starvation after natural or man-made disasters. Such reserves would not be used in situations of chronic malnutrition due to overpopulation. International grain reserves could also be used for stabilization of commercial markets.

Either program could be financed by contributions in kind from food exporting nations and in cash from developed, but food importing, countries. Size of reserves, amount of contributions and recipients' eligibility requirements would be established by agreement.

Probable consequences of internationally controlled emergency grain reserves include:

(1) Ability to respond quickly to alleviate human hardships caused by unpredictable calamities;

(2) Little effect on prices so long as reserves are small and not released in commercial channels;

(3) Possible pressures from poor, hungry nations to release reserves for chronic food deficit problems;

(4) Possible attempts by food surplus nations to enlarge reserves to prevent low farm product prices; and

(5) Complex administrative, political and diplomatic problems peculiar to an international organization.

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