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Wheat

Background for 1990 Farm Legislation

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WHEAT: BACKGROUND FOR 1990 FARM LEGISLATION. By Joy L. Harwood and C. Edwin Young. Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture. Staff Report No. AGES 89-56.

Abstract

Surplus wheat stocks declined under the 1985 Food Security Act as exports expanded due in part to the export enhancement program and reductions in the loan rate. Cutbacks in wheat production and recent droughts in key producing areas further reduced wheat stocks and increased prices. Although burdensome stocks could easily return, there is also the risk of shortage and high prices if additional production shortfalls and demand increases occur in the near future. Exports will likely be the main source of demand growth for U.S. wheat. However, world trade is not expected to match the sharp expansion of the 1970's and competition among the major exporters may intensify. Issues for 1990 farm legislation include loan rate and target price levels, the level of farm program costs, planting flexibility, and the future of the export enhancement program.

Keywords: wheat, production, domestic use, prices, world trade, costs and returns, farm programs, program effects.

Foreword

Congress will soon consider new farm legislation to replace the expiring Food Security Act of 1985. In preparation for these deliberations, the Department of Agriculture and many groups throughout the Nation are studying preceding legislation to see what lessons can be learned that are applicable to the 1990's. This report updates Wheat: Background for 1985 Farm Legislation, (AIB-467) by Sam Evans. It was updated by Joy L. Harwood and C. Edwin Young. This report is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experience with various farm programs and the key characteristics of the commodities and the farm industries which produce them. For more information, see the Additional Readings listed at the end of the text.

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Summary

Barring a 1-year extension, the 1990 wheat crop will be the last one produced under the Food Security Act of 1985. Experience with the 1985 Act has raised the following issues associated with new farm legislation debate:

- (1) What guidelines should be followed in adjusting loan rates and target prices?
- (2) If wheat is in short supply, should the acreage reduction requirement be eliminated?
- (3) Should a flexible base program be implemented?
- (4) Should the conservation reserve program be altered or enlarged? Can we afford to remove more wheat base from production?
- (5) How large an acreage base should be eligible for farm program benefits?
- (6) Should the size of the wheat farmer-owned reserve be limited? What purpose do we want the reserve to serve? How can the reserve be made more responsive to market signals?
- (7) What level of farm program costs is acceptable?
- (8) Should the wheat program encourage the use of less chemical inputs to protect the environment at the expense of wheat production?
- (9) Should the export enhancement program be continued?

These questions must be considered in the light of important developments in the wheat industry and in the markets for wheat:

- (1) The U.S. share of world wheat trade declined in the mid-1980's, but has recently risen. Because of record foreign production in the mid-1980's, which some argue was the result of high U.S. support prices, the U.S. share of the world market fell to 33 percent, on average, from 1985-87, down from an average 44 percent for 1975-79. In 1988, U.S. exports were estimated at 42 percent of the world total. Because of drought-induced shortfalls, high U.S. prices, and increased competitor exports, the U.S. market share is expected to drop dramatically in 1989, to 32 percent.
- (2) Foreign countries continue to expand production.
- (3) Double-cropping of soft red winter wheat and soybeans is an activity that is more market-oriented and less program payment-oriented than the production of other wheat classes. At low wheat prices, production of soft red winter wheat

falls, reducing surpluses. This phenomenon is due in large part to the availability of production alternatives. If producers of all classes had the alternatives of soft red winter producers, surpluses would not persist.

- (4) The potential for continued and even more rapid growth in wheat yields makes it more difficult to have effective production control.

Important wheat production and marketing characteristics must also be considered in finding appropriate policies:

- (1) Wheat is a supplementary enterprise on a majority of the farms on which it is grown, while in traditional growing areas it is a major enterprise. Program needs may be different for the two situations.
- (2) Wheat's relatively low production costs per acre, relatively stable national-average yields (around trend), and the lack of good alternative crops in traditional growing areas contribute to surplus conditions.
- (3) Flour quality, when measured by standardized baking tests, has dropped substantially in the past 25 years. This decline has in part been caused by changes in wheat varieties, increased input use, and other factors.
- (4) Policies that treat all classes as an average may not function well when one or two wheat classes are in short supply. For instance, durum imports increased in 1988 while durum stocks remained in the farmer-owned reserve because the release price for all wheat was not reached. This is true even though durum prices were considerably above the release price.
- (5) Some foreign buyers of U.S. wheat have complained about the low quality of U.S. exports. Complaints focused on dirty, molded, or infested grain and that characteristics of the grain contracted for were not met. Improvement of grain quality may lead to higher prices or to increased exports, especially when competition for sales is high.

Production cutbacks and droughts in key producing areas recently reduced stocks and increased prices, following several years of surplus production. But structural problems persist and burdensome stocks could easily return. Although exports will likely be the main source of demand growth for U.S. wheat, world trade is not expected to match the sharp expansion of the 1970's, and competition among the major exporters might intensify.