

AUTHOR'S NOTE

"A Comment on Soybean Price Supports" was written on March 16, 1961, in response to a proposal of then Secretary of Agriculture Freeman. It was a sort of "here we go again" statement and was directed at the public, farmers, and farm organizations. It received rather wide circulation; some responses were "Amen," and others, "But we need high price supports in order to get a fair living for family farms." A good time was had by all.

A COMMENT ON SOYBEAN PRICE SUPPORTS

CHAPTER 17

Secretary of Agriculture Freeman has said that he intends to increase the support price for soybeans to \$2.30 regardless of whether new feed-grain legislation is passed. Raising the soybean price support would be a serious mistake. It is hoped that some reflection will lead him to change his mind.

There have been two major downward adjustments in the soybean price support. It was reduced from \$2.56 for the 1953 crop to \$2.22 for the 1954 crop and from \$2.09 for the 1958 crop to \$1.85 for the 1959 and 1960 crops.

The reduction made in early 1954 was in anticipation of a major increase in soybean acreage as the result of imposition of allotments on corn, wheat, cotton, and rice acreage. In the October 1953 *Soybean Digest* I wrote,

It is not possible to accurately forecast the price effects, both short and long run, that an increase of 100 million bushels of soybeans would have. Taking the several factors into account and assuming a constant to growing livestock population and a constant level of consumer income, it appears that a decline of about 15 percent in the price would keep a large stock of soybeans from development; that is to say that a support price of 75 percent of parity would likely preserve an essentially free market for soybeans; would allow farmers to avoid acreage, restrictions on soybeans... The choice to be made is fairly clear. If soybeans are supported at 90 percent of parity, there will likely be a sharp increase in acreage. Farmers with storage will receive a high price for a big crop. But the following year it will be necessary to restrict acreage and there will be a price-depressing surplus overhanging the market... If soybeans are supported at 75 percent of parity (\$2.10), the increase in acres planted will likely be less. Returns from soybeans will likely be less the first year. Farmers will be able to keep productive land in high-value crops.

The choice was made in favor of lower price supports. Organizations representing soybean producers took the initiative and petitioned the USDA for a reduction in price supports.

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The reduction in early 1959 was the result of the likely accumulation of a modest surplus in the hands of CCC from the very large 1958 crop. In the January 1959 *Soybean Digest*, I wrote,

Soybeans are in trouble. There is not a large enough market to absorb current production at current prices. We are faced with the need to find larger markets or reduce production. This must be done now or government inventories will be built up. The example of other crops—corn and wheat in particular—is sufficient to prove the need for immediate action and underscore the futility of remedies taken too late or in half steps. The soybean industry should take its medicine now and should take a large enough dose to effect a cure.

The soybean markets, export and domestic, are expanding rapidly enough to absorb current production increases, and the expansion can be continued for the indefinite future. If the expanding need for high-protein concentrates is to be met, there must be further expansion of soybean production. The trouble lies with the oil fraction... Soybeans must be allowed to sell at prices that will permit the continued expansion of the market for soybean meal and that will permit oil to compete effectively with other fats and oils for the existing world market.

Again, organizations representing soybean producers went in with a request for a reduction in the support price.

There was a carryover of 62 million bushels on October 1, 1959, of which CCC owned approximately 43 million. CCC has since sold its entire inventory at substantially higher support prices.

The growth in the market for soybeans has been tremendous. The total disappearance during the 1953–54 crop year was 278 million bushels. Disappearance during the 1959–60 crop year was 572 million, more than doubling in six years. Disappearance in 1960–61 will be about 570 million but limited to this amount by the supply available. The price, at the moment of this writing, is \$2.76 bid to east-central Illinois farmers. The loan is \$1.91.

A soybean supply essentially double that of ten years ago is a shortage! The wisdom of the policy that was initiated by soybean producers and executed by the USDA during the period 1954–61 is incontrovertible. It is extremely difficult to argue with success, particularly in an agricultural world as messed up as today's.

The essence of the policy has been to maintain a price support low enough that competitive market prices guided and regulated production and use of soybeans. The record proves the wisdom of this policy. I put a simple proposition, now

proved: The wisdom of the marketplace is greater than that of government; therefore, the soybean industry can do a better job of directing production and use of soybeans than can governmental employees. However competent they may be, I cannot, in my egotism, but doubt that they are not, in these matters, but little more competent than I; and as a forecaster, I have assaulted the wisdom of the marketplace a sufficient number of times to gain a considerable regard for it.

The rationalization for an increase in the soybean support price is that we need more soybeans and farmers should be encourage to plant a larger acreage in 1961. I heartily agree that a larger acreage is called for in 1961. But there are other and better ways to encourage an acreage increase than with an increase in the support price.

There will be a larger acreage in 1961; this is true whether the price support is raised, held the same, or eliminated. It is not just the government that is saying we need more—the market is saying it as well. November soybean futures at the moment that this is written are \$2.47. Last fall the bids to farmers were 13 cents under the November. The market guide to farmers planting is \$2.34. The bids for 1961 crop corn are \$1.00. The market's ratio is 2.34. A competitive price system does its job.

The reaction of farmers to the suggested \$2.30 support is worth special note. I have had my ear fairly close to the ground in this matter. In Illinois an overwhelming majority of soybean producers think an increase in the support to \$2.30 would be unwise. They clearly understand the difference between policies that have been applied to soybeans and other crops and are fully aware of the differences in results. We are now seeing the interesting situation in which the best way to lose farmer support is to suggest an increase in the support price! I rather suspect the best agricultural economists these days are farmers.