

**AUTHOR'S NOTE**

A first review of governmental policy was in a paper written on March 5, 1951. With the onset of the Korean War, the Office of Price Stabilization was established, and wage and price controls were imposed. Disapproving of the whole concept, I decided to attack in a small area in which I had a high level of expertise: the soybean complex. The paper was distributed to the media with particular attention to publications reaching soybean producers. The thought was that farmers were being had by ceilings. It got quite a lot of attention and response from farmers and farm organizations and brought down the wrath of soybean processors.

In reciting the effects, I missed the one that was most interesting. Jasper Giovana of Decatur Soy Products discovered that while there were price ceilings on soybean meal, there were no ceilings on mixed feed. He put out a mixed feed that was 80 percent soybean meal and 20 percent various minerals such as limestone. Other processors followed so that there was eventually mixed feed guaranteed to be 99 percent soybean meal. The final absurdity was daily quotations in the *Chicago Journal of Commerce* showing soybean meal at a nominal \$74 and soybean meal mixed feed at a variety of prices some \$24 to \$40 over soybean meal. I was increasingly aware of the inevitability of market prices.

## SOYBEAN AND SOYBEAN PRODUCT CEILINGS

### CHAPTER 2

On Tuesday, February 13, 1951, the Office of Price Stabilization issued an order establishing maximum prices on soybeans and soybean products. Basic prices were as follows: soybeans at Chicago, \$3.33; loaded on track at country stations Illinois points, \$3.23, or Chicago minus freight, whichever is greater. The effective price in the main Illinois bean areas is \$3.23. Price to interior dealers is \$3.25; price to farmers in Illinois, \$3.16; crude soybean oil 20.50 cents per pound bulk Decatur, Illinois; and soybean meal \$74 per ton bulk Decatur. Margins allowed under these prices will bear examination.

#### METHOD OF APPRAISAL AND PERIODS

The method employed was to calculate the margins actually obtained during certain historical periods and compare them with margins allowed if soybeans and soybean products reach and stay at the ceilings. The detail of the selection of periods, prices, and yields, and the calculation of margins is explained below.

The historical periods used together with the reasons for the selection of each were as follows:

1. February 8, 1951; the weekend just prior to the imposition of controls.
2. December 19, 1950, to January 25, 1951; the period used in establishing general controls.
3. October 16 to November 10, 1950; the peak of the 1950 harvest and hence the period of the heaviest soybean and soybean product marketing.
4. May 25 to June 25, 1950; the period mentioned by the Defense Production Act of 1950.
5. December 19, 1949, to January 25, 1950; the period just one year before the general control period.
6. October 17 to November 12, 1949; the peak marketing period for the 1949 crop.

(There followed lengthy and complex calculations of processing margins during each of the six time periods with results as follows: ceilings 64.4 cents; February 8, 1951, 50.6 cents; December 1950 to January 25, 1951, 44.2 cents; October 16 to November 10, 1950, 41.9 cents; May 25 to June 25, 1950, 9.9 cents; December 19, 1949 to January 25, 1950, 23.3 cents; and October 17 to November 12, 1949, 30.7 cents.)

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## RESULTS

The actual margins by periods (10 and 47 yield) ranged from 5.1 cents to 55.9 cents. Margins during the current crop year have averaged 36 cents and have rarely been below 30 or over 40 cents. During this period of 36-cent margins, soybeans have been crushed at a rate of 23 million bushels per month—both a record rate and a sufficient rate that there will be little if any carryover next October first. Production was in excess of 280 million bushels as compared to 225 million bushels last year. Many marginal crushing units were brought into use. Crushing margins were about 10 to 15 cents per bushel more than during the preceding year. This presumably reflected the larger crop and the use of marginal crushing units. It seems that a 25-cent margin will get a 225 million bushel crop crushed and a 35-cent margin a 280 million bushel crop crushed. It appears that the margin allowed in Illinois under soybean ceilings is 20 cents higher than necessary. There is no historical basis for a 64-cent margin.

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In discussing the effect of ceiling prices, we can only assume that they will not be violated. They are especially vulnerable to violations because of the very large number of soybean producers and handlers and users of soybean meal. It seems doubtful that these two prices can be effectively held under their market value.

Under ceilings all processors will attempt to buy all of the soybeans possible. The efficient processors will have no buying advantage over the inefficient ones, with the result that supplies will be shared on the basis of buying persuasion rather than operating efficiency. Efficient capacity may stand idle while inefficient capacity is used.

The large price increase in soybeans as compared to last year has been, for the most part, the result of the increased oil prices. Oil is the really scarce product at the present time. Sharing of soybeans among all processors will result in lower average oil production per bushel of soybeans.

In attempting to buy as many soybeans as possible, processors will increase their buying radius with a resultant crisscrossing of soybean shipments and transportation inefficiency. For example, soybeans in west-central Iowa are worth 12 to 15 cents less to Decatur, Illinois, processors when transportation and oil yields are taken into account than are east-central Illinois soybeans. Under ceilings Illinois processors can buy Iowa soybeans.

Not all of the increase in margins was given to processors. The margin of interior grain dealers during the current crop year has been 1 cent per bushel and under ceilings is 2 cents. Terminal merchandisers are allowed 3 cents per bushel. At that figure they are likely anxious buyers of soybeans.

The bulk of the margin increase normally goes to processors. They will likely get flimflammed out of a lot of it. A first development will be to offer storage to country elevators. The season storage rate is 7.5 cents. Some soybeans that processors have room for in their own bins may be stored in the country for some very short periods.

A second development will be to route soybeans through the maximum length marketing channel. For example, \$3.23 soybeans located on an 8-cent freight rate from Chicago can be sold to an interior dealer who can charge \$3.25 to a terminal merchandiser, who in turn can charge 3 cents plus 1.5 cents to 2.25 cents elevation of a processor on a 13-cent rate. Cost laid down in Decatur is \$3.64 as compared to a normal movement cost of about \$3.55, and the processor can afford to allow up to 20 cents of this.

A third development will be traffic in soybean meal. At \$74 meal will likely be in short supply by May. Processors will offer purchase rights to meal in exchange for purchase rights to soybeans. The resultant distribution of meal will likely not take full advantage of milling-in-transit privilege with an accompanying economic waste. Under such a system it is doubtful that meal will get into the hands of those people who can use it most effectively. The concentrations of soybeans and livestock production are not in the same areas. Is there anything in the law that prohibits processors from giving meal to farmers in exchange for purchase rights to soybeans?

When we will get into absurdities of women's underwear and corn syrup is conjectural. With the large sums involved the list of evasions will likely get much larger than the above. Because of the extent to which processors will lose a part of the margins permitted and because only partial capacity may be used, the regulation, in spite of its generosity, may prove disadvantageous to efficient processors. It eliminates effective price competition in the industry.

#### **THE PROBLEM OF PRICE RELATIONSHIPS**

The establishment of arbitrary maximum prices necessitates consideration of price relationships. The first of these is the corn-soybean ratio. A normal figure is 1.8, which is that of \$1.7 corn and \$3.16 soybeans. But the inflation is in oil. Presumably we need more oil, and so it appears that the logical thing to do is to widen the ratio by increasing the price of soybeans. With increased cotton and corn acreages it is doubtful that the USDA goal of 14.3 million acres of soybeans will be realized with a 1.8 ratio.

With \$1.70 corn and \$74 meal the corn-soybean meal ratio is 1 to 1.23, which is a normal one. It appears that with a high price for oil (as it is), normal corn-soybeans, corn-soybean meal, and soybeans-soybean product ratios are not possible.

The prevailing price relationships of soybeans located in the different states were rather thoroughly shaken up. With ceilings, the Illinois price was decreased about 5 cents. The Iowa price went up about 12 cents. Prices in the southern states went up possibly as much as 20 cents. The Indiana price is now closer than usual to the Illinois price.

#### **RECOMMENDATIONS**

Recommendations vary by the extent to which it seems necessary to impose ceilings on the soybean price structure. Accordingly, several alternative suggestions are listed:

1. Dispose of price controls of soybeans and soybean products. No system of arbitrary controls can be as efficient or as fair as free market prices.
2. Place ceilings on oil and meal in line with historical relationships, and let the price of soybeans work out its own level. There is nothing inflationary in this because soybean prices cannot get out of line with product prices.
3. If we must place ceilings on soybeans, the price at Illinois country points should be increased by 20 cents for the remainder of this crop year, with a complete revision announced for next September 15.
4. If ceilings are retained, a substitute for the pricing system must be worked out. A requisition and allocation system for soybeans, soybean oil, and soybean meal will be necessary by May 1, 1951. If prices are arbitrarily fixed, each producer and handler of soybeans and soybean products must be told to whom, where, and when he will sell his product. That is the central hard fact of price controls.

