

AUTHOR'S NOTE

"Government and the Soybean Situation" was a "here we go again" review of the need to look at real market forces in establishing governmental policy. A problem had developed out of a misguided policy and needed to be cleared up. Governments are slow learners. The article was published in *The Soybean Farmer*, February 1969.

GOVERNMENT AND THE SOYBEAN SITUATION

CHAPTER 26

Soybeans are in troublesome surplus. The carryover in the fall of 1966 was a minimum pipelines stock of 35 million bushels. In 1967 it was 91 million high enough to weigh on the price but not a large proportion of the crop. In 1968 it was 167 million, which is clearly more than a prudent reserve and properly called a surplus. Current forecasts are for a carryover of about 300 million bushels in the fall of 1969.

Two decisions must be made in the near future—one of them immediately. The 1969 loan rate must be set prior to planting time, and it should be announced by February 15. At the time of this writing, it looks as if the announcement will be delayed until after the new administration takes office.

Second, longer-range price and production policy will be established with new agricultural legislation. The existing legislation for feed grains, wheat, and cotton expires with the 1970 crops. The 1970 wheat crop will be planted in the fall of 1969. Thus, Congress should write new legislation in the session beginning in January. The question at hand is what the soybean provisions should be.

HISTORICAL POSITION

In the October 1953 *Soybean Digest*, I wrote, "For the past several years soybean prices have been supported at 90 percent of parity . . . there are indications that a support level of 90 percent for 1954 crop soybeans would be unwise . . . A support price of 75 percent of parity (\$2.10) would likely preserve an essentially free market for soybeans. It would allow farmers to avoid acreage restrictions." In the January 1959 *Soybean Digest*, I wrote, "Soybeans are in trouble. There is not a large enough market to absorb current production . . . The soybean industry should take its medicine now and should take a large enough dose to effect a cure . . . A reduction of 46 cents per bushel in the support price appears drastic. That the support price should be set at \$1.63 does not mean that the average price will be that low." This bit of violence drew substantial irate response to which I replied, "I must confess an error in writing the price-support article. Now I know that I was not arguing for lower soybean supports but was arguing for no soybean supports . . . In the long run we need upwards of a billion bushels of soybeans . . . The more we compromise the economic balance of the soybean industry with support schemes having to do with other crops, the less likely we are to achieve our long-run goals."

The position that I took then and have continued over the years is based on two primary notions. First, the markets for soybean meal and soybean oil, both domestic and export, have expanded at a rapid rate so that production and revenue have increased. It has been possible to have a rapid rate of expansion at profitable prices. Soybeans have a comparative advantage over competing oilseeds because of their high protein-to-fat ratio. Freely fluctuating market prices have made it possible to exploit the potential market growth and to compete effectively with other oilseeds.

Second, it has been possible to take land out of other crops and put it in soybeans, holding farm income up. But land taken out of soybeans has no alternative use; better to sell soybeans at a lower price than to have nothing to sell.

This historical position is worth mentioning here because it was the generally prevailing attitude of the industry. A review of the price-support levels makes this clear. The long-standing policy of the industry called for a decrease either in anticipation of or following the increase accumulated from the 1966 crop.

1953 —	\$2.56	1961 —	\$2.30
1954 —	2.22	1962 —	2.25
1955 —	2.04	1963 —	2.25
1956 —	2.15	1964 —	2.25
1957 —	2.09	1965 —	2.25
1958 —	2.09	1966 —	2.50
1959 —	1.85	1967 —	2.50
1960 —	1.85	1968 —	2.50

COMPETITIVE POSITION

We cannot review here the detail of the market situation for soybean products. A few generalizations are in order.

The domestic market of soybean oil is expanding at a rate faster than population. Total fats and oils consumption per capita is essentially static. Production of other fats and oils is not expanding as rapidly as population, hence an increase in soybean oil disappearance of about 4.5 percent per year. The price elasticity of demand for soybean oil is very low; oil can be priced at nearly any level without affecting consumption.

The export market for soybean oil is made up of two parts: dollar exports and Public Law 480 programs. The dollar market has had an excellent growth rate during the past decade. Most of the increase is in the form of soybeans. This market has been subjected to severe competition during the past two years from sunflower seed oil, mainly of Russian origin; and rapeseed oil, mainly produced in

Europe under large subsidy. At this moment competition from Russia has subsided. Whether or not it will be resumed is conjectural. The answer is probably related to price. If soybean oil prices go back up to the levels of 1966, the Russians may be back in the market. The general level of world prices of edible fats and oils during the past decade has been low enough to prevent rapid increases in products competing with soybean oil, such as peanut oil, palm kernel oil, coconut oil, and olive oil. Dollar exports of soybean oil are price-sensitive, particularly in the long run.

The soybean oil surplus gap has been bridged since 1954 by shipments under Public Law 480. Currently, the largest of these go to India and Pakistan. Generally speaking, the USDA has maximized these shipments. Recipients are hard to find; our shipments compete with domestic production, such as peanut oil in India.

The domestic market for soybean meal has expanded at a moderate rate during the past decade. The rate of increase appears to have slowed in the past two years. The expansion has taken place in spite of rising and rather high prices. It thus appears that the growth potential is not fully exploited.

The domestic market for soybean meal is experiencing competition from increased use of three main substitutes: (1) fish meal, (2) urea, and (3) synthetic amino acids. Severe competition may develop from high-lysine corn. All of these are price-related; lower meal prices lessen competition and vice versa. The price of soybean meal has gone from very low to very high relative to the general group of feedstuffs.

The export market for protein has grown dramatically during the past decade. From 1958 to 1967 it increased from 3 to 9 million tons—from 25 percent of the protein market to 46 percent. Six million tons of meal requires 255 million bushels of soybeans.

The expansion of the export rests on the general increase in economic development, in consumer incomes, and in the resultant demand for animal products which require protein feed. This market has tremendous growth potential as economic development proceeds and expands to new areas.

European markets are not price-sensitive to the aggregate of protein prices, but they are sensitive to individual protein prices. U.S. soybean meal has been subjected to sharp competition with fish meal during the past two years. Fish meal production is price-sensitive. It is the primary product of fish and is related to the cost of fishing, particularly off the coast of Peru.

GUIDELINES

If we accept these sweeping generalities, we can develop some guidelines for establishing production and price policy. First, the rate of growth of the soybean industry may be slow in the future, but it appears that all four segments of the market have a substantial amount of growth potential left; the market is not saturated. It does appear that the period of dramatic increase may be at an end; thus, the soybean industry cannot absorb additional acreage pulled out of other crops.

Second, the domestic market for soybean oil will continue to grow at a fairly rapid rate; and it is not price-sensitive. Any scheme that will increase domestic oil prices will be reflected in higher soybean prices or lower meal prices without market damage.

Third, current soybean meal prices are high enough to retard domestic consumption in the short run and, if continued, will encourage the substitution of other protein sources in the long run. High meal prices do more long-run than short-run damage.

Fourth, relatively high soybean meal prices do little short-run damage to protein exports but will seriously reduce long-run growth potential.

Fifth, the long-run rate of expansion of soybeans in world competition with other sources of protein feeds and fats and oils will be increased as world oil prices are low and decreased as world oil prices are high.

POLICY CHOICES

In the very short run, the balance of the 1968–69 crop year, the best policy seems clear. The USDA should maximize exports of soybean oil under Public Law 480. This will tend to increase oil prices, enabling lower meal prices at the fixed soybean price. Lower meal prices will increase consumption, both domestic and export, and minimize the September 1, 1969, carryover. But not much can be done this year.

A lower level of price supports will result in a lower price of soybeans and lower income. How much lower income depends upon how much the price support is reduced.

On the other hand, lower prices will increase disappearance. How much of an increase depends upon how much the price support is reduced. It is not possible to accurately forecast the consumption response to a given price change.

The answer to the question depends on the long-run solution. If the industry is going in the direction of high prices and eventual production control, there is no com-

elling reason to reduce the price support. If the industry is going in the direction of competitive prices and long-run growth, it is imperative that the process start now before any more damage is done to growth, that of meal in particular.

It is interesting that this choice must be made now, just after a new administration takes office. The tone and general philosophy may be set by this decision. It will probably be a compromise with a moderate reduction.

In the long run there are several possibilities, some opposed and some complimentary. At one extreme is mandatory production control and a fairly high price. This could be done only at the expense of further growth of the industry. Further, there is not an escape crop into which one can put idled land. This choice is academic. The strict-control route has been considered and rejected several times and most likely died permanently with the wheat referendum in 1963.

At the other extreme is to let the market function. The question here is the price that would prevail. Certainly, it would be lower than current prices—else an inventory would not have been accumulated. But, it might not be so awfully low. Eight-cent oil is cheap by every reasonable comparison. Meal prices were fully competitive at \$55 in the second half of the 1950s. These prices yield a soybean price of about \$2 to \$2.10 in the central belt. It is unlikely that both sides of the equation would sell so low at the same time. A policy of letting the market function would hold acreage in check and might reduce it.