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THE AGRICULTURAL SITUATION

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FRIDAY, APRIL 25, 1975

THE AGRICULTURAL SITUATION

FRIDAY, APRIL 11, 1975

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 9:39 a.m., in room 1202, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey and Proxmire; and Representative Long.

Also present: George R. Tyler, professional staff member; Michael J. Runde, administrative assistant; Leslie J. Bander, minority economist; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will convene the meeting of the Joint Economic Committee. This morning we have a number of witnesses with us, Mr. Willard Cochrane, University of Minnesota; Mr. D. Gale Johnson, University of Chicago; Mr. Robert Lewis of the National Farmers Union; Mr. John Datt, American Farm Bureau Federation; and Mr. L. C. Carpenter, Midcontinent Farmers Association.

Then on the 25th of April we will have a continuation of these hearings. We have Mr. Earl Butz, Secretary of Agriculture; Mr. John Wefald, Minnesota commissioner of agriculture; Mr. James McHale, Pennsylvania secretary of agriculture; and Mr. Robert Duxbury, South Dakota secretary of agriculture.

I have just a brief opening statement this morning. I am sure our witnesses know that I have long had a very deep interest in our agricultural sector and economy. I serve as a member of the Committee on Agriculture and Forestry, the legislative committee of the Senate, and as chairman of the Subcommittee on Foreign Agricultural Policy.

Right at this very time we are now engaged in the legislative process relating to our agricultural program. In the coming week we will be undertaking our conference between the House and the Senate in hopes of fashioning a new farm bill which will relate to what we call target prices, the loan rates on commodities, and other matters relating to agricultural policy.

So today we are going to start our hearings on the total agricultural picture. It has been my judgment that far too little attention has been paid to the agricultural sector of the economy by the Congress.

The committees of the House and the Senate that are related to agriculture take a look at the commodity programs, and the many services that go to the agricultural communities, but the relationship of agricultural income and agricultural indebtedness, interest rates as they affect agriculture, and other economic matters to the total economic picture has not been put in proper perspective insofar as I have been able to see.

If our agricultural experience over the past several years has shown anything it has shown that we have not learned very much by our mistakes. The Russians in 1973 pulled the wildly successful grain deal which saw our farmers and grain dealers sell low, and later on we saw the Russians sell high.

Yet we still today have no early warning information system to prevent another Russian or China grain deal of similar proportions.

In 1974, bumper crop predictions by the USDA pushed early crop prices down. But poor weather lead to fevered foreign speculation and soaring food prices as domestic stocks were sold abroad. Yet this year, today, we are in the identical situation again.

Optimistic crop predictions have pushed farm prices down 5 straight months. If these predictions do not pan out, we will once again see food prices jump as foreign buyers raid our stocks. We have no export management rules or regulations and no concurrent export monitoring devices.

In fact, the U.S. Department of Agriculture last month removed all prior notification requirements for foreign sales regardless of their size.

Over the past 4 years we have seen net farm income drop 17 percent, jump over 50 percent, and then fall from the fourth quarter of 1973 to 1974 some 37 percent.

I think those statistics indicate the incredible gyrations of the agricultural market.

Annual per capita farm income has varied from $4,800 to $2,600; farm prices have flutcuated in some cases by over 100 percent in just the last 2 or 3 years. Wheat has varied from $1.10 per bushel to $6, that is $1.10 going back to about 1970 and now up to approximately $6 in the middle of last year.

Corn has gone from $1.95 a bushel up to $3.50. I venture to say that no other segment of the American economy could take such price gyrations and variations without total disaster.

In fact, the rest of the economy has such built-in price protections that it takes a sledgehammer blow to bring prices down a small percentage point, much less the kind of drop that I am reciting here.

Instability continues to dominate American agriculture; as you have said in the post, Mr. Cochrane, we are at the crack end of the world food whip. The administration has refused to develop a comprehensive farm policy designed to stabilize farm incomes and prices using reserves and short-supply export management rules.

The administration has been urging our farmers to maximize production, yet production costs are up 15 percent since March 1973, while farm prices have fallen 15 percent. In view of this cost squeeze, Congress proposed an emergency increase in target loan price levels to support maximum production.

Yet the administration has given us every indication of opposing these increases; in fact, the Secretary of Agriculture has said he would recommend a veto to the President. The administration supports full production only with words; but words won't pay the gas bill or the fertilizer bill or other farm costs and Congress knows that.

With net farm incomes now projected to fall 30 percent this year, the higher House and Senate target or floor prices are absolutely necessary from my point of view to encourage a good crop, and thereby hold retail food prices stable.

The committee has asked five gentlemen as I have indicated to appear today and to discuss these and other agricultural issues.

Leading off will be Mr. D. Gale Johnson of the University of Chicago, and Mr. Willard W. Cochrane of the University of Minnesota.

Messrs. Johnson and Cochrane have both been in the forefront of the commentary on agricultural policy. They are accomplished and respected agricultural economists. We ask you, Mr. Johnson, to proceed.

STATEMENT OF D. GALE JOHNSON, PROFESSOR, UNIVERSITY OF CHICAGO

Mr. JOHNSON. Thank you very much, Senator Humphrey.

In my comments this morning I will not react to all of the questions that you posed in your letter of invitation. And in fact I will restrict myself primarily to two issues, both of which you commented upon in your introductory remarks.

One is the issue of how to in effect manage domestic agricultural policy particularly with respect to prices in the years immediately ahead and closer related to that, the issue of reserves.

I centainly agree with that aspect of your remarks; namely, that these last 2 or 3 years in agriculture have been unusual to put it midly, that we have seen a very substantial increase in farm prices, and farm incomes up through much of 1974, but with evidence now that we are beginning a downward turn in this regard.

Over the last 3 or 4 years we have seen very rapid increase in the price of land which was almost certainly a reaction to the sharp increases in product prices, that you referred to.

I suspect, however—I don't know why I say "suspect"—but that there is substantial disagreement over what steps should now be taken and as I indicate in my prepared statement I fear that there is a very real possibility that inappropriate—that if inappropriate choices are now made with respect to levels of target loan rates that American agriculture will fairly soon find itself in the situation that it was in about 1960 with a substantial excess capacity to produce relative to the market and the need to return to the various forms of controls, acreage diversion, acreage set-asides, perhaps even marketing quotas in the broad sense that they existed before.

It is my conclusion that as of 1970, about 1972 really that the farm policies that have been followed over the previous decade for which the gentleman to my right had significant responsibility, had in fact achieved a great deal. The situation started in the early 1960's in which there was relatively low farm income, stocks of grain and cotton in the hands of the Commodity Credit Corporation were large, and drastic steps were required to try to eliminate this situation.

It was not easy to achieve, it was not achieved quickly, but it was achieved over a period of roughly a decade and on the basis of the studies that I have done I think that by 1972 there was a rough balance between the level of output of U.S. agriculture and the demand for that product that provided a reasonably acceptable level of income for resources engaged in American agriculture.

At this time I am deeply concerned that policy and program action will be taken in the immediate future that could quickly place U.S. agriculture in a situation such as it was as of the early 1960's.

I believe that these actions could result in once again creating significant surplus production capacity and holding excess reserves in agriculture to the detriment of farm people and at high cost to consumers and taxpayers.

In an effort to soften the effects of the current and prospective declines in farm prices we may once again mislead farmers concerning the longrun respects with respect to prices and net income for farming.

If we do so it can only be said that we have behaved irresponsibly. Such efforts will not only be of little longrun benefit to farm people but will assure a return to acreage diversion, acreage set-aside, or perhaps even more stringent control over individual farm operations.

I think we need to ask ourselves if it is our desire to follow the rather painful course that was found necessary during the 1960's.

There has been a considerable dispute, of course, about the nature and the sources of the very substantial increase in farm prices over the past 3 years. Some have argued this represented a new relatively permanent situation not to the extreme that it existed in 1974 and 1973 but that in fact we were faced with a prospect of a significantly higher price situation for farm products, particularly the grains, in the years ahead than we have seen in the past.

I do not agree with that position and in fact feel that what we witnessed in 1973 and 1974 was to a considerable extent very similar to what occurred during the mid-1960's when there was a substantial expansion of foreign demand, much of it was supplied through Public Law 480, but which was very soon alleviated by relatively good crops in many parts of the world.

My expectation—obviously I could be wrong—is that what we are likely to witness over the next 2 or 3 years is a return to more or less the same level of grain prices after we adjust for inflation that we witnessed in the early 1970's.

There may be an increase of above that level of 10 or 15 percent reflected in the effect of the devaluation of the dollar, since the overvaluation of the dollar had probably depressed grain prices in the United States, and in the international markets during that period of time.

Based on the changes in the parity index, prices paid by farmers for commodities, wages, and interest, if prices return to roughly the real prices of the early 1970's this would imply as of 1975, the price of a little over $2 for wheat and about $1.85 for corn.

What I would like to comment on now is what I see to be a rather critical and very difficult situation that may well occur in the calendar year 1975 actually.

Just as we saw in 1973 and again in 1974, that relatively modest shortfalls in world grain production and the shortfalls were modest, on the order of 3 and 4 percent below the year earlier.

We may well see that a relatively modest improvement in supply—let me back up. Just as we saw the modest shortfall in production resulting in doubling and trebling of grain prices, we may well see the relatively modest improvement in supplies to say 3 or 4 percent above the amounts of the year before can result in substantial declines in the prices of our grain products particularly.

And I am particularly concerned here about feed grains. The reason for that is that we are witnessing this year, the crop year 1974–75, a remarkable downward adjustment in the use of grain in the United States.

The amount of grain that is anticipated to be used for all purposes in 1974–75 is 30 million metric tons or 17 percent below the year earlier. All of this decline has been in the grain fed to livestock. Given the large cattle inventory that we now have and the possibility there might be liquidation of that herd over the next 2 or 3 years, it would be most unlikely that the future use of grain could recover to the 1973–74 level except with exceedingly low grain prices and then only after a lag of some time, perhaps a year or more.

The large cattle inventory is not just a phenomenon in the United States, but prevails in all of the industrial nations. The shortrun response to larger supplies of feed grains and to lower feed prices will be limited in all of the industrial countries, in part because farmers in Western Europe and in the Soviet Union will not have access to the lower prices.

I do not see the Common Market changing its policies one iota over the next year if, even if there is a very substantial decline in international prices of grain. The variable levies will go back into effect and thus all of the adjustment in the additional supplies will come outside of Europe and in effect come in exactly the same areas where all the limited supplies came from; namely, in North America and in developing countries.

But even in those countries such as the United States or Canada where lower feed grain prices will affect farmers' decisions the response during the nearest year will——

Chairman HUMPHREY. When you say "in response to an easing of the world supply-demand relationship," what do you mean?

Mr. JOHNSON. In terms of increased use.

Chairman HUMPHREY. Though the price is down, you do not think there will be substantial increased consumption?

Mr. JOHNSON. Certainly not to take up this 30 million ton cutback we have seen in this past year. I think it will happen, but it will not happen within the same crop year. You might make up half of it. But even that might be extreme.

So I think the question that I pose is what should be the policy reaction to supply and price situation that is likely to prevail over the next year or two, that is likely in the context in which I presented it.

Obviously, I can be wrong. Mother Nature can be adverse again this year and production of one or more major grains may be down.

As I see it, there are three—well, there are two alternatives, I suppose one could say that are being actively considered at the present time.

One is the one I have indicated in my prepared statement as the positions being taken by the Congress of the United States which is that of substantial increases in target and loan prices; the other one is the view of Secretary Butz which has been expressed that the Agricultural Act of 1973 should be more or less left, essentially left unchanged.

I do not find myself in agreement with either one of these positions. I think if there are substantial increases in the loan prices and target prices, at least to the levels that have been discussed, I believe that within a relatively short period of time, 2 to 3 years at most, there is a strong possibility that we will accumulate substantial quantities of grain in reserve and that we will then start having to divert land from production and in addition to that, we will be paying considerable deficiency payments.

I know there are those people who will scoff at the idea that large grain stocks could be accumulated over the next 2 or 3 years.

But, I would at least suggest as an analogy that we look at the period 1967–69 when grain stocks in the United States, Canada, and Australia increased from about 29 million tons to over 50 million tons in a 2-year period.

This is wheat stocks. Feed grain stocks increased from 37 million tons to 50 million, feed grain stocks. Then the reaction of the three governments mentioned was a sharp cutback in production of wheat in 1970 and wheat acreage in the United States, Australia, and Canada in 1970 was 72 million acres, down 40 million acres from the 1968 level of 112 million acres.

Now, as I indicated, I do not find myself in agreement in this with Secretary Butz. I did agree that the level of loan rates specified in the 1973 act were very reasonable ones and that certainly the target price of corn, I would so define.

However, there has been a substantial change since the act of 1973 was passed and if you take from the period of roughly July 1973 up until February 15, the parity index increased 23 percent, that is the prices paid plus interest and taxes.

I think it would be reasonable to reflect this increase in the loan rates for wheat and corn at least, and in the target price for corn.

In addition to some modifications in the loan rates and in the target prices, I feel that the possibility of a sharp downturn in farm prices or grain prices in 1975 and 1976 is such that we should at least lay out the plans for the accumulation of certain categories of grain reserves during that period and in the immediate future.

In my prepared statement I argue for a number of actions of this kind. One of the things I would like to see happen—and this is not really a question of grain reserves—but I would like to see the United States indicate what it plans to provide in the way of food aid out of the 1975 crops and to announce this very early so that this element of uncertainty would not hang over the market.

Whatever this commitment is or whatever we believe that we should supply, we might say that half, we should supply half of the 10 million tons of food aid agreed on at the World Food Conference.

But in any case, announce that early, hopefully at least as soon as we have a fairly good view of what this year's crop is going to be.

I think it might also be desirable to start accumulating grain reserves for at least two different purposes. One purpose is to meet our commitments, whatever they may be, to the developing countries themselves, to minimize the impact on them of variations in their own food production.

While I would like to see this done within the framework of an international agreement or protocol, particularly on the grounds that other countries should bear a part of the cost, I do feel it might well be desirable given the prospects that I see in this year without agreement. that we might accumulate perhaps as much as 4 or 5 million tons for that purpose.

The other type of reserve which we might consider grows out of a point that you made, Senator Humphrey, with respect to the problems of dealing in trade with the Soviet Union and conceivably under some circumstances, with the People's Republic of China.

Actually, there are only two really important actual or potential sources of large year-to-year variations in world exports of grain. The major one is the Soviet Union and the People's Republic could under some circumstances. Mr. Cochrane has asked if I would not include India.

I do not think India is large in the sense that the Soviet Union is. India is an important source and I would hope that we could be able to meet the—I was here talking about commercial trade, not the aid, not the food aid.

I was arguing accumulation of reserves to have supplies available to supply for food aid. But in commercial export trade the two major sources are the Soviet Union and potentially China.

There is no doubt a private competitive market is at a real disadvantage in trading with monopolies which is the opposite—which is what the Soviet Union and China are in their grain trade.

Each has a monopoly of information and neither seems willing to give up that monopoly by providing timely and accurate indications of the productions and intentions with respect to imports and exports.

As long as these circumstances prevail, the possibility of the events of 1972, 1973, and 1974 cannot be ruled out. There are a variety of ways in meeting the problems involved. If Congress were to withdraw the authority for export subsidy or if the administration were to permit itself not to use the existing authority some of the problems encountered in the large grain exports to the Soviet Union of 1972 and 1973 would be eliminated.

And the three major exporters might agree among themselves at the beginning of each year the maximum total grain exports they would permit to be shipped to the Soviet Union or the three major exporters might negotiate with the Soviet Union for an advance indication of the volume of planned imports for a given year.

But, I think one has to say that the major exporters have so far not shown much ability to cooperate either politically or economically especially when trade stocks become burdensome.

So I essentially argue that it might well be in our national interest in terms of achieving price stability, in achieving adequacy of supplies to our normal exporters, Western Europe, Japan, some of the developing countries, that we, and hopefully in cooperation with the other major exporters, at least might start accumulating some stocks that might be held in reserve for what I have called contingencies in the commercial market.

Thank you very much, Senator.

Chairman HUMPHREY. Well, I thank you. You had some studies that you wanted to include in the record?

Mr. JOHNSON. Yes. I will give them to the staff.

Chairman HUMPHREY. We will include the entire text of your prepared statement, to which you have alluded to in your oral testimony, together with the studies. All of it will be made part of the record.

[The prepared statement and studies of Mr. Johnson follow:]

PREPARED STATEMENT OF D. GALE JOHNSON

The agriculture of the United States is currently in the downward phase of a cycle that started its upswing in the latter part of 1972. It is difficult to imagine that so many dramatic changes could be imposed upon agriculture in so brief a period of time. The large increases in farm prices, in farm incomes and in exports of farm products have had major impacts and will continue to influence farming, farm people and the U.S. economy for several years into the future.

Prior to 1972 farm land prices had been increasing gradually, approximately at the same rate as the general price level since 1968. However, starting in 1972 there was a rapid increase in land values, with land prices increasing significantly more than the general price level. It is not at all obvious that recent land prices can be sustained by the current level of farm prices, let alone farm prices that may decline significantly over the next year or two.

The wisdom with which the problems of U.S. agriculture are approached during the next year will affect farming for at least the remainder of this decade and perhaps longer. If unwise changes in programs are made now, no matter how well intentioned, most if not all of the benefits of farm policy changes that were made between the early 1960s and 1973 will be lost. In my view, a decade of relatively wise and effective farm policies had by 1972 resulted in a number of important consequences. Governmental interferences with farm plans and production had been greatly reduced. While agriculture was burdened with substantial excess resources at the beginning of 1960s, by 1972 there was a rough balance between supply and demand for farm products that provided reasonably satisfactory incomes for farm families. While there are many defects in the measure, the ratio of the per capita disposable incomes of farm people to the per capita disposable incomes of nonfarm people had increased from approximately 55 percent in the early 1960s to an average of 76 percent for 1970–72. It was true that a substantial part of the improvement in income came from nonfarm sources. Little of the increase in nonfarm income can be associated with changes in farm policy, but farm programs did not interfere with this important resource adjustment.

I am deeply concerned that policy and program actions will be taken in the immediate future that will quickly place U.S. agriculture in the situation in which it was as of the early 1960s. The actions could result in once again creating significant surplus production capacity and holding excess resources in agriculture to the detriment of farm people and at high cost to consumers and taxpayers. In an effort to soften the effects of the current and prospective declines in farm prices, we may once again mislead farmers concerning the long run prospects with respect to prices and net income from farming. If we do so it can only be said that we have behaved irresponsibly. Such efforts will not only be of little long run benefit to farm people but will assure a return to acreage diversion, acreage set aside or perhaps even more stringent control over individual farm operations. I think we need to ask ourselves if by deliberate action it is our desire to once again follow the rather painful course that was found necessary during the 1960s.

During the past two years farmers and the rest of us have been continuously exposed to the view that there is an enormous world food shortage that will persist for some years, if not indefinitely. According to this view farm and food prices would remain at or near the high levels reached in 1973 and 1974. Those few of us who argued that the situation in 1973 and 1974 was a temporary aberration, much in the same sense as the previous world food scare of the mid-1960's, have received little attention. The significant declines in the prices of cattle, hogs, poultry, wheat, feed grains, soybeans and cotton that we have seen during the past 12 to 18 months has now called into question the permanence of recent food supply difficulties. And I fear that we have not yet seen the end of the downward slide in farm prices, especially for the grains. Obviously if North America or some other major grain producing area has a rather poor grain crop in 1975, grain prices could remain at their current levels or even increase as they did from the spring to the summer of 1974.

However, the most reasonable expectation is that farm prices of grain will move lower, if not in 1975 very soon thereafter. It is not possible to say how much lower, but I believe that if there is no interference by the U.S. government that real grain prices—the money price adjusted by the change in the general price level—could return to near the 1970–71 real prices. Because of the devaluation of the dollar, the equilibrium price might be some 10 to 15 percent above that level. On February 15, 1975, the farm prices of wheat and corn, after adjustment above the average fram prices for 1970–71.

In my opinion, if 1975 is a relatively good grain year, farm prices for wheat and feed grains could decline to or below the real prices of 1970–72 ($2.06 for wheat and $1.85 for corn). Just as a relatively modest shortfall in world grain production, combined with the unwillingness of many governments to permit an increase in their domestic grain prices, resulted in the trebling of grain prices, a modest increase in world grain production in 1975 over 1974 could have a major adverse effect upon grain prices in the international markets and in the United States. The governments that followed policies to prevent an increase in domestic grain prices in 1973 and 1974 are likely to follow policies that will prevent a decrease in domestic grain prices in response to an easing of the world supply-demand relationship.

I believe there is special grounds for concern about feed grain prices in the United States. It took our livestock economy several months to adjust to the large increase in grain prices. In 1973–74 our national use of grain (for all purposes) was 178 million tons compared to 180 million tons in 1972–73 and 176 million tons in 1971–72.[1] This year (1974–75) the anticipated grain use has declined to 148 million tons—some 30 million tons or 17 percent below last year. All of the decline has been in grain fed to livestock. Given the large cattle inventory that we now have and the possibility that there may be some liquidation of that herd over the next two or three years, it would be most unlikely that feed use of grain could recover to the 1973–74 level except with exceedingly low grain prices and then only after a lag of some time—perhaps a year or more. The large cattle inventory is not just a phenomenon of the United States, but prevails in all of the industrial nations. The short run response to larger supplies of feed grains and to lower feed grain prices will be limited in all the industrial countries—in part because farmers in Western Europe and in the Soviet Union will not have access to the lower prices. But even in those countries, such as the United States and Canada, where the lower feed grain prices will affect farmers' decisions, the response during the first year to the lower prices will be a limited one.

What should be the policy reaction to the supply and price situation that is likely to prevail over the next year or two? There are, in my opinion, three major alternatives. One is to follow the course that now seems to be most acceptable to the Congress—a major increase in the absolute and real levels of target prices and loan rates over those indicated in the 1973 Act. The second is the option preferred by Secretary Butz, which is to leave unchanged the target prices and minimum loan rates as specified in the Agricultural Act of 1973 and permit the market to function. After briefly discussing these two alternatives, I shall present a third alternative that I believe more effectively addresses both the short run and longer run problems than does either of the first two alternatives.

It is my serious and considered judgment that the modifications of the target prices and loan rates included in the House and Senate amendments to the Act of 1973 almost certainly will result in substantial accumulations of grain by the Commodity Credit Corporation, the necessity to divert acreage from wheat and feed grain production, and the use of export subsidies, at least for wheat, within two or three years. In addition there will be major payments required to keep returns to farmers at the specified target levels—higher for wheat under the Senate action than under the House amendments but substantial in either case. The relatively high levels of the target prices will mean that the major restraints on output will have to come through diverting land, which may require substantial payments in excess of deficiency payments.

I am sure there are those who will scoff at the idea that large grain stocks could be accumulated within two or three years. I call your attention to the increase in U.S. wheat stocks from mid-1967 through mid-1969. U.S. stocks increased from 11.6 million tons to 22.3 million tons. Canadian and Australian stocks increased from 18 million tons to 30 million tons. U.S. feed grain stocks increased significantly—from 37 million tons in 1967 to 50 million tons in 1970. For both wheat

[1] All references to tons are to metric tons of 2,204 pounds.

and feed grains efforts were made to restrict output in 1969 and 1970 by the diversion of an average of 5.15 million acres, up from 20 million acres in 1967, by the wheat and feed grain programs. Wheat acreage in the United States, Australia and Canada in 1970 was 72 million acres, down 40 million acres from 1968 level of 112 million acres.

Nor do I find myself fully in agreement with Secretary Butz. I believe that the loan rates for both wheat and corn are now too low. As of the conditions of early 1973 or late 1972 these loan rates were reasonable. They were low enough to permit the grains to be marketed effectively, both at home and abroad, and high enough to provide an easy source of credit as an assist to orderly marketing and high enough to more than cover the then out-of-pocket costs of production for reasonably efficient grain producers. However, since mid-1973 the inflation has made the loan rates for wheat and corn too low to provide much help with respect to orderly marketing or the coverage of out-of-pocket costs. I believe that the basic principles of the 1973 Act would remain unaffected if the loan rates were increased by the increase in prices paid by farmers since early 1973. From July 15, 1973 through February 15, 1975, the parity index increased by 23 percent. I think it would be reasonable to reflect this increase in the loan rates for wheat and corn. Thus the price support level for corn might be increased to $1.35 and for wheat to $1.69. The target price for corn might be increased to approximately $1.70. I do not think that there is any economic basis for as large a differential between the target prices for wheat and corn as there was in the 1973 Act. At most the wheat target price should be 15 to 20 percent above the corn target price. Thus there is no basis in terms of long run relative production costs or market demand to increase the target price for wheat above its present level of $2.05.

The alternative that I believe merits consideration is an increase in loan and target prices for corn (and the other feed grains) approximately the levels indicated and to increase the wheat loan rate to about $1.70. But if I am correct about the possible development of grain prices if there is a good crop in North America and in other major grain growing regions in the United States farm prices of wheat and corn have a significant probability of going to or below the suggested target prices—at least for the first part of the crop year before there is a significant demand adjustment to the new situation. As indicated earlier, it seems likely that if grain supplies return to trend level or slightly above in 1975 there will be a sharp decline in grain prices and that this decline may well go substantially further than it would if there were more time to adjust to it. In other words, grain prices might well overreact during the early part of the crop year, this time on the downside just as there were temporary overreactions on the upside in 1973 and 1974.

This possibility leads me to make some suggestions concerning reserves and food aid. Let me comment on the latter first. I would strongly urge that the United States Government announce fairly soon, hopefully no later than July 1, 1975 how much grain it was going to provide as food aid in 1975–76. As a result of the World Food Conference the industrial nations have committed themselves to 10 million tons for the next two years. After consultation with the other major donor countries we should announce the amount that we plan to provide and I assume that it would be of the order of 4 or 5 million tons. The reason for the early announcement is to remove this element of uncertainty from the market.

Let me turn now to grain reserves. I believe that there are three major purposes that can be met by reserves. One is to aid developing countries in meeting shortfalls in their production. A second is to assist in our bargaining for a reduction in trade barriers in the current round of negotiations. The third is to meet unusual contingencies in commercial export trade. I feel that whatever we do to meet the second objective should be part of the current trade negotiations. Because of our use of controls on the exports of soybeans and wheat I believe that we will have to provide assurance to our trading partners that we are reliable suppliers. One of the ways of doing that is to offer to hold stocks, either unilaterally or in cooperation with other exporters and with importers.

While I am not a strong supporter of food aid on a large scale, such as we engaged in from 1954 through 1966, I do believe that the industrial countries can assist the developing countries in offsetting shortfalls in their production. A rather considerable degree of assurance can be provided at what I believe to be an acceptable cost. The details of the program, which has been called an international insurance program, are outlined in the paper, "Determination of Optimal Grain Carryovers," by Yagil Danin, Daniel Sumner and myself which I ask to be included in the published report of these hearings.

It is possible to develop an international insurance program for the developing nations that would hold to an acceptable level the consumption effects of annual variations in grain production. To do so requires two things: First, that a group of industrial countries assure to the developing countries or regions that any shortfall of grain production greater than a given percentage below the trend level of production be met by what we have called an insurance payment, and, second, that the developing countries follow a reserve program of their own that takes into account that any shortfall in production greater than the specified percentage would be met by the insurance program. The reserve program required of the developing countries would be that the expected gain from an additional ton of grain added to stocks would equal the expected cost of that additional ton. In any given year the optimal amount of storage is a function of the total supplies available during the year—the total supplies would be the sum of production of that year, the carry-in from the previous year and any payments that would be made by the insurance program. Further detail cannot be provided in the time available, but the program is outlined in the appended paper.

It may be useful to indicate how the program would have worked in India for 1948–1973 if all shortfalls in grain production in excess of 6 percent were met by insurance payments. The largest grain reserve that would have been held by India would have been 6 million tons in 1961 and 1962.[2] In only one year—1966—would grain consumption have fallen 5 million tons or about 7 percent below the trend level of consumption. In only two other years would the shortfall have been 3 million tons or more—in 1950 (3 million tons) and 1965 (4 million tons). The total payments required over the 26 year period would have been but 13 million tons. It might be noted that in 1972 following this program that grain consumption would have been but 1 million tons below the trend level.

I believe that the reserves that would be required for such an insurance program should be segregated from all other reserves. One reason is that it would be possible to build up the required reserves in an orderly manner and thus not add to price instability in the major exporting nations. The other reasons is that there may be a better chance of obtaining financial support from the importing nations if the reserve is segregated and thus not available for ordinary commercial transactions. The probable size of the reserve is not large. Under the assumptions made in the attached paper, the maximum annual payment that would have been required for the years 1950–73 was 8.2 million tons. One of the assumptions was unrealistic, namely that there was free trade in grains within certain developing regions. Thus with the nationalism that prevails the maximum payment that could be expected would be somewhat larger, perhaps by 50 percent, though this is only a speculative answer since the necessary calculations have not been made—but they could be for a fairly modest cost.

I would urge that if there is a substantial decline in U.S. grain prices during the early part of the 1975 crop year that a start be made toward creating such a reserve. If necessary, the start should be a unilateral one but hopefully cooperation could be obtained from Canada and Australia. If farm prices fell below the target levels that I suggested earlier (about $1.70 for corn and $2.05 for wheat) the U.S. should commit itself to acquiring up to 5 million tons of grain for this insurance reserve. This grain would not be available for any purpose other than transfer to developing countries that had production shortfalls in excess of a given percentage of their trend production.

The third of the reserve objectives noted earlier was to meet unusual contingencies in commercial export trade. Quite frankly, there are only two important actual or potential sources of large year-to-year variations in world trade in grains—the Soviet Union being the major one and the Peoples Republic of China so far much less important though potentially of importance. A private, competitive market is at a real disadvantage in trading with a monopsonist, which is what the Soviet Union and China are in their grain trade. Each has a monopoly of information and neither seems willing to give up that monopoly of information by providing timely and accurate indications of their production and intentions with respect to imports and exports. As long as these circumstances prevail the possibility of the events of 1972, and 1973 and 1974 cannot be ruled out. There are a variety of ways of meeting the problems involved. If Congress were to withdraw the authority for export subsidies or if the Administration were to commit itself not to use the existing authority, some of the problems encountered in the large grain exports to the Soviet Union in 1972–73 would be eliminated.

[2] Reserve levels are amounts in excess of working or pipeline stocks.

The three major exporters might agree among themselves at the beginning of each year the maximum total grain exports that they would permit to be shipped to the Soviet Union. Or the three major exporters might negotiate with the Soviet Union for an advance indication of the volume of planned imports for a given year.

But the major exporters have so far not shown much ability to cooperate either politically or economically, especially when grain stocks have become burdensome. Thus it may be that the most likely way of minimizing the effects of another major Soviet purchase of grain within the next decade would be to create a special reserve for commercial export contingencies. This reserve would be separate from the reserve for the developing country and any stocks acquired through price support operations. The disposal rule would require that sales would be made from the reserve only when the real price were a large percentage of the average acquisition price—perhaps as much as 100 percent. In this way there would be some chance of recovering the costs of acquisition and storage. More importantly, a large spread is required to provide an incentive for private storage and a reasonable opportunity for profitable grain production in the United States.

Much more work needs to be done to determine the benefits and costs of holding such a reserve. It is not now possible to indicate with any precision what the size of the reserve might be to achieve reasonable objectives. One educated guess has been that 30 million tons would be a reasonable figure. Assuming a long run real rate of interest of 5 percent and storage costs of $10.00 per ton year, a 30 million ton reserve would cost about $400 million annually. Because most of the benefits of such a reserve would go to consumers and not producers, there might be some chance of obtaining cooperation in bearing the costs from the major importing countries.

I believe that if farm grain prices were moving below the target price levels and toward the loan rates in 1975 that it would make sense to start building such a reserve. To do so would prevent part of a short run price decline that was not indicative of the longer run equilibrium price of grain. It would help alleviate the price squeeze on farmers, a price squeeze that was temporary in nature.

It is, in my opinion, totally unrealistic to assume that recent levels of grain prices can or will be maintained for any extended period of time. To so assume will result in repeating mistakes that have been made in the past—after World War II and during the middle and late 1960s.

As I noted earlier, much of the excess capacity or excess resources with which agriculture had been burdened during the first half of the 1960s had been eliminated by 1972. A large fraction of what was counted as diverted land in 1972 was either a part of usual crop rotations (summer fallow for wheat) or land that would not have been in cultivation in any case. A significant part of the increase in land devoted to crops in 1974 compared to 1972 was the reaction to higher prices and not the result of the elimination of acreage diversion or set asides. It would be unfortunate, indeed, if farm programs were now modified in such a way as to once again encourage a capacity to produce more farm products than can be sold at prices that will return a reasonable return on the resources used in agriculture.

Determination of Optimal Grain Carryovers [1]

(By Yagil Danin, Daniel Sumner, and D. Gale Johnson)

Grain reserves of carryovers will be one of the important topics of the U.N. World Food Congress to be held in November, 1974. Even though there has been numerous suggestions for grain reserve programs for the United States, for the developing countries and for world's commercial market for grains there has been little systematic work undertaken on any aspect of reserves since Robert L. Gustafson's *Carryover Levels for Grains* which was published in 1958.[2] Our work can be considered as an extension of Gustafson's efforts. The extension consists of some modifications of the assumptions made by Gustafson, which were made possible by the much greater capacity of computers (and lower cost of calculations) now than two decades ago.

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[1] Office of Agricultural Economic Research, University of Chicago, paper No. 74: 12, Oct. 31, 1974, revised Mar. 23, 1975.

[2] Robert L. Gustafson, *Carryover Levels for Grains: A Method for Determining Amounts that are Optimal under Specified Conditions*, U.S. Department of Agriculture, Technical Bulletin No. 1178, 1958.

Part I is an exposition of the method and assumptions used to determine optimal carryover levels, including some comments about computational procedures. Part II consists of discussions of reserves for the developing countries, including consideration of how the high income countries might assist the developing countries and regions in achieving an optimal carryover program. Part III presents some addtional results that reflect the effects of trade interferences on the need for grain reserves and some results for individual industrial countries and regions, including the USSR.

PART I

Following Gustafson, a model to be applied to computing optimal grain carryover was developed. Basic components for the problem are (1) fluctuating and random future supplies of grain, (2) positive costs of carryover including a discount rate, (3) a welfare function implying a negative elasticity demand function. The simple underlying notion to be applied is that given a downward sloping demand curve increased welfare may be had by holding low priced grain in above trend years for sale at the higher prices in low production years. It is clear then that in optimizing this temporal transfer account must be taken of the above features.

In the next few pages the conceptual model is laid out.[3] Begin by specifying a finite horizon and the various functions to incorporate the features. Let the horizon be divided into T periods (years). Production is a random variable X_t with a probability density $f_t(X_t)$. Supply for the year t, is S_t,

$$S_t = X_t + C_{t-1}$$

where C_{t-1} is the carryover from the previous year. Consumption during a year is, $y_t = S_t - C_t$, with C_t the grain carried into year $t+1$ out of supplies in year t. Current utility is $w_t = w_t(y_t)$ a function only of current consumption. Storage costs for a year are a function of quantity carried over $g_t = g_t(C_t)$.

The problem in a given year is taken to be maximization of the expected value of the discounted sum of welfare over the horizon. For period $t=1$ that is to select a C_t to

$$\text{Max } E = \int \sum_{t=1}^{T} \delta_t (w_t - g_t) \cdot f(X) dX_t$$

with respect to C_t such that $0 \leq C_t \leq S_t$. Where δ_t is the discount factor, $f(X)$ is the joint probability distribution of $X_1, X_2, \ldots, X_T$. Assuming independence, $f(X) = f_1(X_1), f_2(X_2) \ldots f_T(X_t)$, and given the beginning stock C_O.[4]

For solution the idea is to work back in time from a "final" period to the present using knowledge of the realized values of the stochastic supply function to solve the maximizing problem. In this "final" period no "future" production is relevant.

For this final year T with S_T given, the problem can be written

$$\text{Max } (w_T(S_T - C_T) - g_T(C_T)).$$

Now *from the point of view of year T-1*, S_T is a random variable, $S_T = C_{T-1} + X_T$, because X_T is at this point random. Let $E\,V_T$ be the solution for the year T maximization problem, then

$$EV_T \equiv \int V_T(C_{T-1} + X_T) f_T(X_T) dX_T.$$

After integration this is a function of C_{T-1} to be denoted by $E\,V_T(C_{T-1})$. In year T–1 then the optimal C_{T-1} will be found by solving, with S_{T-1} given,

$$\max_{0 \leq C_{T-1} \leq S_{T-1}} w_{T-1}(S_{T-1} - C_{T-1}) - g_{T-1}(C_{T-1}) + \delta_T(EV_T(C_{T-1})$$

The current marginal loss in W_{T-1} from positive C_{T-1} and the storage costs entailed are balanced against the marginal gain from additional supply in year T. The solution value of this problem as well as the optimal carryover at T–1 are functions of S_{T-1}, denoted by $V_{T-1}(S_{T-1})$ and $C_{T-1}(S_{T-1})$, respectively.

[3] This portion is based primarily on notes from Yigal Danin, though he cannot be held responsible for what error I may have made in this presentation.

[4] It is a more difficult problem if a more complicated joint density is presumed. These relationships between year to year production would need to be specified and each year's optimal carryover would be based on the conditional distribution of the other years given the present production.

Now consider the situation from the point of view of T–2 when $S_{T-1}-C_{T-1}+X_{T-1}$ is a random variable because X_{T-1} is random. The expected value of the sub-problem for T–1 is calculated as a function of C_{T-2}

$$EV_{T-1}(C_{T-2})=\int V_{T-1}(C_{T-2}+X_{T-1})f_{T-1}(X_{T-1})dX_{T-1}.$$

The problem for period T–k is,

$$\max_{0\leq C_{T-k}\leq S_{T-k}} [w_{T-k}(S_{T-k}-C_{T-k})-g_{T-k}(C_{T-k})+\delta_{T-k} EV_{T-k+1}(C_{T-k})]$$

Here the final term $EV_{T-K+1}(C_{T-k})$ subsumes the value of the carryover to the next period given the probability distribution of the X_t for the future periods. Selecting optimal X_{T-k} requires the S_{T-k} to be given and for **any** presumed given S_{T-k} an optimal $C_{T-k}(S_{T-k})$ and the value $V_{T-k}(S_{T-k})$ can be selected. The expected value of the solution

$$EV_{T-k}(C_{T-k-1})=\int V_{T-k}(C_{T-k-1}+X_{T-k})f_{T-1})dX_{T-1}.$$

is a function of the carryover from period T–k–1. Optimal carryover policies consisting of a proper carryover in year t for each postulated or given S_t can be computed.

This section will discuss the empirical specification of each of the features of the above model. Begin with the demand side. We based our computations on a constant elasticity demand function $y_t=\alpha e^{\gamma t}P_t^{\beta}$; where β is the own price elasticity of demand, γ is the exponential trend in demand and, α the constant term. P_t is the price of grain in period t and y_t is the quantity of grain demanded. Since price is taken to be the marginal of the welfare function

$$w_t(y_t)=\int_{\epsilon}^{y_t}(\alpha e^{\gamma t})^{-1/\beta}y^{1/\beta}dy;$$

where ϵ is a positive small number, i.e., the area under the demand curve. Carrying out the integration

$$w_t=(\alpha e^{\gamma t})^{-1/\beta}\frac{1}{1+1/\beta}[y_t^{(1+1/\beta)}-\epsilon^{(1+1/\beta)}]$$

We compiled our data for α by using $\alpha=y_oP_o^{-\beta}$, and entering data on price and quantity for base year 1970. The quantity demanded relevant to this storage model is that portion of domestic demand which normally balances domestic production. Since imports and exports are considered nonvariable, they cannot be used to offset fluctuation in domestic supply. The y_o used is the 1970 trend level production. This feature insures the fact that consistent net importers or exporters cannot vary their trade to affect their storage policy. While for importers this is reasonable it could be argued that there is potential on the part of exporters to vary exports rather than carryover in response to variation in production. P_o for each region was based roughly on FAO trade yearbook data, these prices being in the range of \$100 per metric ton. The differences between regions were caused mainly by differences in the composition of the grain aggregate, with rice being more expensive than wheat or coarse grains.

To avoid confounding the implications of divergent long run trends in domestic supply and demand we set γ equal to $B\hat{E}X$ the estimate of the exponential growth rate of production for each country or region. These growth rates were in the range of 0.03–0.05 for most countries. This is also roughly the order of magnitude for the rate of growth of grain consumption projected by FAO.

The elasticity of demand β proved to be a very critical determinant of optimal carryover. It is intuitively clear that the steeper the demand curve the greater the variation in marginal value induced by a variation in quantities, thus the more carryover implied. Our basic source for the β parameters was a set of estimates from the USDA. We used the appropriate weighted aggregates of these individual own and cross elasticities for wheat, rice and coarse grains to get the own price elasticity of all grain holding the relative prices of the individual grain constant.[5] These elasticities were in the range of -0.10 and -0.30. Because these relative price elasticities do not include an income effect the poorer countries have the lowest elasticities.

A simple cost function of the form $g_t = B \cdot C_t$ was applied. B is the average and marginal cost of yearly storage per ton of grain. We used either $7.50 or $10.00 per ton. The interest rate used was held constant at 0.05 reflecting the opportunity cost of real capital.

As noted above, all relevant stochastic features of the model are embodied in the specification of the production situation. The trend of production over time for each country or region was postulated to take the form $X_t = \exp\,(AEX + BEX_t + U_t)$. The equation estimated by least squares as $ln\ X_t = AWX + BEX_t + U_t (t = 1, \ldots, T)$. Production data were used for years 1948–1973 as available for the individual countries and region from the FAO Production Yearbooks.

The estimate of BEX, $B\hat{E}X$ was used as the proportional trend growth rate in expected production and also (as discussed earlier) as the growth rate in consumption over time.

The quantities

$$\hat{\epsilon}_t = X_t - \hat{X}_t = X_t - e^{A\hat{B}X + B\hat{E}Xt},$$

play a vital role in the model for optimal carryover. Letting the years in the carryover horizon be denoted X_h the expected production in year $h = h_o$ is $\hat{X}_{h_o} = e^{A\hat{E}X + B\hat{E}Xh_o}$. The probability distribution for production at $h = h_o$ was set by assigning equal probability to T points $\hat{X}_{h_o} + \hat{\epsilon}_t$ for $t = 1, \ldots, T$. Thus regressions results were used for estimating the probability function as well as estimating the trend of production. For those countries with data for each year 1948–1973 the probability functions have 26 points each with a probability of 0.0385. It is these probabilities for each year h that enter into the optimal carryover computations.

The model was applied over horizons 1948–1990 and 1970–1990. Because the end year $T = 1990$ was well beyond the last year for which results are presented, the results are unaffected by the finite horizon. The approach of the end year would cause a reduction of carryover because there is no incentive to store past year T. Two alternative assumptions were made with respect to the growth in production variability over time. (1) As specified above the expected production grew over time at rate BÊX but possible variation from the expected production remained constant in absolute terms. Thus the probability of say a 5 million ton shortfall in production would remain constant as mean production grew. Given a constant elasticity demand curve the percentage variation in supply determines the incentive to carryover. Thus constant absolute variation by implying falling proportional variation implies a reduction in the optimal carryover from each actual deviation from trend. (2) A second approach was to let each point on the probability distribution grow at rate BÊX. This implies proportional deviations from trend remain equally probable as expected production grows over time. In this case the implied optimal carryover for equally probable events would remain constant over time. A priori it is not clear which of these alternatives might be expected to obtain. To some extent it would depend on the source of growth on trend production. The years 1948–1973 exhibited no discernible trend in variation of production from trend over time.

A second assumption made with respect to the variability in production was that the probability distributions were independent. The model has not been worked out when this assumption is relaxed; however, some implications of alternative assumptions are clear. For example, if there were positive autocorrelation among the deviations it would be more likely that a shortfall would be followed by another bad year. This should lead to an increase in the optimal carryover for each supply level. Negative auto-correlation would imply less carryover. Over the years 1948–1973 Durbin-Watson statistic indicated no significant first order autocorrelation for the countries and regions examined. With

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[5] The aggregate own price elasticity for all grains G with respect to its relative price PG was computed as $\eta_{G.PG} = \mathrm{w}/\mathrm{G}(\eta_{w,Pw} + \eta_{w,PR} + \eta_{w,PC}) + R/G(\eta_{R,Pw} + \eta_{R,PR} + \eta_{R,PC}) + C/G(\eta_{C,Pw} + \eta_{C,PR} + \eta_{C,PC})$ where w, R and C refer to proportion and elasticity with respect to wheat, rice and coarse grains and each of these individual prices are Pw, PR and PC. So, e.g., $\eta_{w,PR}$ is the USDA estimate of the cross elasticity of wheat demand in response to changes in the price of rice.

the exception of USSR and Oceania the tendency was towards a positive correlation between year to year residuals. If there does exist this sort of nonindependence the results reported below are biased downward.

PART II

The method described in Part I was used to estimate optimal reserves for developing regions and countries. For a particular year, the optimal carryover (the amount retained in storage at the end of the crop year) is a function of the supply of grain for that year. The supply includes the carryover from the previous year plus production during the year. Estimates were made of the amount of grain that would be stored from a given supply at the beginning of the season for four developing regions and for four individual countries—India, Indonesia, the Philippines and Pakistan and Bangladesh considered as a single country. The amount of storage was related to three factors—variability in grain production, the elasticity of demand for grain and the cost of storage. The variability of grain production was determined by fitting a logarithmic function to annual grain production for periods of 24 to 26 years and then determining the departures of each year's production from the trend line. The probability distribution derived from past data was related to 1970 trend level of production for each region or country. Even though there was no evidence that there was a time trend in production variability, the assumption was made that future variability of production about the trend would be proportional to trend production rather than a probability distribution based on past absolute variation.

The measures of the price elasticity of demand were approximated after considering regional estimates made by the U.S. Department of Agriculture.[6] In most of the exercises reported here it was assumed that the price elasticity of demand for all grains in the developing regions or countries was —0.1 though some results using an elasticity of —0.2 are presented. The published results given by the U.S. Department of Agriculture are nearer to —0.2 than —0.1 but since there is some evidence that the absolute size of the price elasticity of demand declines as prices increase, it was decided to use the lower absolute value in most of the work.

The projected trend in the demand function and in the level of trend consumption was assumed to be the same as the projected trend in production in a given region. The level of net trade in the base year of 1970 was assumed to remain constant as a proportion of trend production. Trials with other reasonable assumptions about the trend in demand and consumption growth indicate that the differing assumptions had negligible effects upon the estimates of optimal reserve levels. Independently derived projections of demand and supply growth could not be used if the projections showed any change in the rates of demand and supply growth since the storage quantities would be influenced by the changes in the projected net deficit or surplus. Since carryover levels would be influenced primarily by year to year output variations, the decision was made to use the production trend for future years.

Storage costs, including in and out charges and physical loss, were assumed to be $7.50 per ton and the long run real rate of interest was assumed to be 5 per cent. Grain prices were approximations for regional or country grain prices as of 1970.

It should be noted that the storage quantities do not include working stocks. Thus the quantities cannot be compared with actual stocks at any given time. A recent estimate of the FAO Committee on Commodity Problems, Intergovernmental Group on Grains estimates that working stocks for the world may be as much as 159 million tons as of 1973/74 levels of production. While working stocks are probably a function of costs of storage and interest rate as well as expected prices, it is assumed that they are constant for any given level of trend production.

Two approaches were made to an estimate of the desirable level of reserves to meet emergencies (departures from trend production) in the developing countries. One was to assume that each region or country considered separately had a reserve program to meet its own production variability and that no part of the variability could be met through international trade. The second was to assume that the rest of the world assured each region or country that all short-

[6] Anthony S. Rojko, Francis S. Urban, and James J. Naive, *World Demand Prospects for Grain in 1980 with Emphasis on Trade by the Less Developed Countries*. For. Agric. Econ. Rept. No. 75, Economic Research Service, U.S.D.A., Dec. 1971, pp. 35–37.

falls in production greater than 6 percent of trend production or consumption would be met from outside the region or country. In effect, the rest of the world would offer the developing countries an insurance program to meet serious catastrophes; it would be the responsibility of the developing countries to hold stocks adequate to meet the remaining variability in production.

Size and Location of Reserves

The estimates of the size of reserves are based on trend production and consumption for 1975, assuming that any reserve held at the end of 1990 had a zero value. This seems a reasonable assumption since extending the period included in the calculations through 1995 had no appreciable effect on optimal carryover levels. As noted, the estimates of optimal reserves is based on trend production for 1975; this means that the expected distribution of yields has the 1975 trend level of production as its mean. The optimal carryover for 1975 would be determined by the actual level of production and the amount carried into 1975 from 1974.

Results from the analysis of the two types of reserve programs are presented. In the analyses two assumptions were made concerning international trade in grains: First, for the four regions (the developing world regions as defined by FAO minus the four individual countries) it was assumed that there was free trade in grain within the region. Second, for the four regions and the four countries it was assumed that they did not vary their net trade in grains with the rest of the world to offset annual variations in their own supply. The second assumption means, in effect, that if a country or region had a relatively large supply that it would add a certain amount to carryover rather than vary its net trade in grain nor would such a country or region vary its net trade in grain if production were relatively low but would reduce its carryover instead. Unfortunately, the model for determining optimal carryovers has not yet been extended to include the effects of international trade upon optimal carryover levels. If there were free trade in grains throughout the world it would be a simple matter to extend the analysis and this has been done and the results are presented in Part III. However, with the numerous governmental interferences in trade in grains the problem is an extremely complex one and has not yet been solved.

Carryovers Held by Developing Countries or Regions

The largest stocks would be required if each developing country held its own stocks, assuming that no advantage were taken of international trade to minimize the effects of production variations on consumption. Under the storage rule applied (and in the real world) it is not possible to determine the maximum carryover to guarantee with certainty that the expected gain from storage would equal the expected cost. The size of the carryover stock can only be related to probabilities that the optimum carryover will be equal to or smaller than a given amount. The following tabulation gives the optimal level of stocks for three different levels of probability—50 percent, 75 percent and 95 percent for the four countries and four regions. The four countries belong to the Far East region and their production and consumption has been subtracted from the total for the region.[7]

The data for the individual entries in Table 1 have been summed. The totals, however, should be interpreted with great caution. There is, for example, no reason to expect, especially for the two higher probability levels, that these levels of optimal carryovers would ever be reached simultaneously in the eight regions or countries. Because the size distribution of carryover stocks is skewed to the right, the annual average level of stocks for the developing countries would be about 13 million tons. This assumes the regional grouping indicated; if each country within the regions was considered as a separate holder of stocks the average level would be higher as would the totals in Table 1.

If the regional and national reserves were held by the nations or regional consortia, the model assumes that the carryover stocks are accumulated out of local production. If so, it is reasonable to assume that the stocks would be located in the country or region. By varying net trade in a manner consistent with what would be required by the carryover rules (storage out of crops in excess of trend production and release of stocks when production is below trend), the stocks could be held elsewhere if it were substantially less costly to do so.

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[7] The Asian Centrally Planned Economies have been excluded from the analysis.

TABLE 1.—OPTIMAL CARRYOVER LEVELS FOR DEVELOPING COUNTRIES AND REGIONS [1]

[In millions of tons]

Country or region	Probability levels		
	[2] 0.5	[2] 0.75	[2] 0.95
India	3.0	6.0	9.0
Pakistan and Bangladesh	.7	1.5	2.8
Philippines	0	0	.3
Indonesia	.6	1.2	2.1
Other Far East [3]	1.8	2.8	3.8
Africa	1.9	3.5	5.5
Latin America	.5	1.7	5.9
Near East	1.0	2.0	4.5
Total	9.5	20.7	31.9

[1] The price elasticity of demand assumed to be –0.1; cost of storage, $7.50; discount rate, 5 percent; production variability proportional to trend production; estimates are for trend production as of 1975; assumes no annual variation in imports or exports.

[2] At each probability level, the quantities are the maximum level of carryover. Thus at a probability level of 0.95, the 9,000,000 tons for India means that 95 percent of the time the carryover would be 9,000,000 tons or less or, conversely, 5 percent of the time carryover would be 9,000,000 tons or more.

[3] Includes developing market economies; thus excludes China, North Korea, and North Vietnam. The latter group of countries has been excluded due to data limitations.

An International Insurance Reserve

The estimates presented assume that there is an international insurance reserve that would make up all deficits in production from the trend level that exceed a given percentage. In the analyses that have been done it is assumed that a shortfall of grain production greater than 6 percent would be entirely met by the insurance reserve. Obviously other percentage shortfalls could be used in the estimates. It is assumed that the individual countries or regions would continue to have a storage program, though the amounts that it would be optimal to store are substantially reduced since the largest shortfall that must be met is 6 percent of trend production. Again it is assumed that there is no trade among the developing regions and countries and that net imports are not varied to offset fluctuations in production other than the quantities involved in the insurance program.

The magnitudes involved in the insurance scheme were calculated for the 24 year period from 1950 through 1973. There were nine years in which there would have been no payment from the reserves. There were three years in which the payments would have ranged from 200,000 to approximately 700,000 tons. There were six years in which the payments would have ranged from 1 million to less than 2.5 million tons. During the six remaining years the payments would have ranged from 4 million to 8.2 million (see Table 2).

These results indicate that there is a probability of approximately five out of a hundred that payments would exceed 8 million tons as of the average conditions of 1950–73. Presumably the amounts would grow by about 3 percent annually as production increases so that by 1985 the expected payment that might be required five chances out of a hundred would be approximately 16 million tons.

TABLE 2.—*Insurance payments to developing countries and regions required to cover grain production shortfalls in excess of trend production, 1950–73*

[In millions of tons]

Year:	Insurance payments	Year—Continued	Insurance payments
1952	0	1967	1.1
1953	0	1970	1.1
1954	0	1960	1.2
1956	0	1958	1.2
1959	0	1955	1.3
1961	0	1950	2.4
1964	0	1957	4.1
1968	0	1951	4.4
1971	0	1972	5.1
1962	.2	1965	6.1
1969	.4	1973	6.2
1963	.7	1966	8.2

If there were adequate stocks for commercial contingencies in international trade or some significant degree of liberalization of international trade, it might well be more economical to accumulate financial reserves to purchase grain to meet the insurance obligations than to store grain. Over the 24 year period the insurance payments would have totaled 44 million tons. The storage model cannot tell us how much to store to meet the required insurance payments since there is an implicit assumption that the elasticity of demand is zero and the answer that would be forthcoming, if the computer did not become confused, would be the maximum amount that could be required in any year. This obviously is not an economic answer since storage costs would become very large. Annual storage costs for 8 million tons (which is less than the maximum potentially required) would be approximately $100 million and in this calculation interest on the investment is not accumulated. The cost of storage would have been a large fraction of the value of the grain paid under the scheme.

One of the advantages of the insurance scheme is that it would provide the developing countries with an incentive to operate their own storage programs. The optimal storage levels, however, are quite modest and appear to be well within the resources of the developing countries. Some international assistance might be provided in establishing such programs, but as indicated in Table 3 even the amounts stored that would be exceeded only 5 times out of a hundred are relatively small for the insurance scheme would have less effect on national storage than would most of the other methods of providing for emergencies (unless the rules were the same) and would assure a high degree of stability of consumption in the developing countries at relatively low cost. The expected annual average level of stocks for 1975 trend level of production is a little less than 6 million tons for the developing countries and regions.

TABLE 3.—OPTIMAL CARRYOVER LEVELS FOR DEVELOPING COUNTRIES AND REGIONS IF INSURANCE RESERVES MEET PRODUCTION SHORTFALLS FROM TREND PRODUCTION OF 6 PERCENT OR GREATER[1]

[In millions of tons]

Country or region	Probability levels 0.5	0.75	0.95
India	0.5	1.5	4.5
Pakistan and Bangladesh	.3	1.1	2.3
Philippines	0	0	.3
Indonesia	.3	.8	1.4
Other Far East	0	.5	1.0
Africa	0	.9	2.5
Latin America	0	1.2	3.0
Near East	.1	1.0	3.5
Total	1.2	7.0	18.5

[1] Except for the insurance payment, assumptions are the same as in table 1.

Rules for Release and Replenishment and Degree of Security

The storage rule underlying the analyses could provide the guidelines for release and replenishment of stocks for the emergency stocks held by developing countries and regions. Additions to and subtractions from reserves are a function of the size of current supplies (this year's production and carryover into the year) relative to trend production. In this storage rule it is assumed that demand is a stable function growing at a rate that is reasonably well known and thus the determination of stock levels depends solely upon total supply, the expected variability of future production, the assumed price elasticity of demand and the costs of storage. The degree of variability in consumption that would have occurred in India for 1950 through 1973 if the storage rule had been followed by India is illustrated in Table 4. Similar studies could be made for the other regions and countries.

TABLE 4.—EFFECTS OF OPTIMAL CARRYOVER POLICY ON GRAIN CONSUMPTION IN INDIA BASED ON ACTUAL GRAIN PRODUCTION AND PRODUCTION VARIATIONS, 1948–73

[In millions of tons]

Year	Production	Carryover[1]	Consumption[2]	Trend consumption[3]
1948	43,794	3	41	44
1949	45,509	5	44	45
1950	41,702	3	44	47
1951	43,339	1	45	48
1952	47,560	2	47	49
1953	57,959	8	52	51
1954	55,399	9	54	53
1955	55,563	9	56	54
1956	56,888	9	57	56
1957	59,087	9	59	58
1958	60,859	9	61	60
1959	63,692	10	63	61
1960	66,646	11	66	63
1961	68,653	12	68	65
1962	69,819	12	70	67
1963	70,949	11	72	69
1964	73,069	10	74	71
1965	63,558	2	72	74
1966	64,182	0	66	76
1967	75,707	0	76	78
1968	81,570	2	80	81
1969	85,066	4	83	83
1970	91,741	8	88	86
1971	90,168	7	91	89
1972	86,628	3	91	91
1973	96,775	5	95	94

[1] The carryover levels are larger than indicated in table 1 due solely to differences in the assumptions made concerning the probability distribution of production variability. In this table the distribution of production variability was based on the actual variability occurring from 1948 through 1973 while in table 1 assumed the components of the distribution were proportional to 1970 trend production and growing overtime.

[2] The estimates of consumption are based on actual production for a given year and the changes in the optimal carryover. Thus consumption in 1972 of 91,000,000 tons would have come from production of 86,600,000 tons and a reduction of carryover of 4,000,000 tons.

[3] The estimates of trend consumption (as well as of consumption) assume that there are no net imports of grain. If there were stable net imports the only effect on the results would be to increase the consumption estimates by a constant equal to the net imports.

The insurance program would leave some uncertainty about the appropriate size of reserves to be held since there is no economically efficient rule that is applicable unless future grain prices are predictable. If the pattern of future grain prices were known, it would be possible to determine whether it would be less expensive to accumulate stocks than to purchase the grain when actually needed to meet the commitment. Because of the many interferences in international trade in grain, it is difficult if not impossible to make reasonably accurate predictions of future annual grain prices. Thus it might be prudent to agree upon relatively arbitrary rules that the reserves held in the world commodity reserve or the total of those held by the industrial nations should exceed the expected annual payments by some fraction, such as 50 percent, or that the reserves should be large enough to meet expected payments some arbitrary percentage of the time—such as 75 percent. In the assumptions made in the earlier analysis of the insurance scheme, this would imply reserves of 3 million tons and 4 million tons, respectively, as of about 1970 and these amounts would grow at about 3 percent annually. It should be noted that this reserve level assumes that there is sharing of grain supplies within the designated regions. If this sharing is not done, the reserve would be larger—perhaps by half.[8]

Table 5 illustrates the variability of consumption, the optimal carryover levels held in India and the payments from the insurance program for 1948 through 1973. A comparison with Table 4 indicates that consumption would have been approximately the same with the two reserve policies in every year except 1966. The insurance program would have provided for consumption of 71 million tons in 1966 while a reserve program operated solely by India would have resulted in consumption of 66 million tons, assuming no change in net trade. The most striking effect of the insurance program would have been upon the storage levels required to be maintained by India. With the program described in Table 4 there would have been 164 million ton-years of storage; with the insurance program only 65 million ton-years of storage. Assuming an annual storage cost per ton, including interest, of $12.50 the total savings for India would have been about $1,200 million and this calculation ignores the accumulation of interest on investment in stocks from year to year. This savings would have been made possible by insurance payments totaling 13 million tons for the 26 years.

TABLE 5.—EFFECTS OF OPTIMAL CARRYOVER POLICY AND INTERNATIONAL INSURANCE PROGRAM ON GRAIN CONSUMPTION AND CARRYOVER LEVELS IN INDIA, BASED ON ACTUAL GRAIN PRODUCTION, 1948-73

[Million tons]

Year	Production	Carryover	Consumption[1]	Trend consumption	Insurance payment[2]
1948	43,794	0	44	44	0
1949	45,509	0	46	45	0
1950	41,702	0	44	47	2
1951	43,339	0	45	48	2
1952	47,560	0	48	49	0
1953	57,959	5	53	51	0
1954	55,399	5	55	53	0
1955	55,563	4	57	54	0
1956	56,888	3	58	56	0
1957	59,087	3	59	58	0
1958	60,859	3	61	60	0
1959	63,692	4	63	61	0
1960	66,646	5	66	63	0
1961	68,653	6	68	65	0
1962	69,819	6	70	67	0
1963	70,949	5	72	69	0
1964	73,069	4	74	71	0
1965	63,558	0	70	74	2
1966	64,182	0	71	76	7
1967	75,707	0	76	78	0
1968	81,570	1	81	81	0
1969	85,066	2	84	83	0
1970	91,741	4	88	86	0
1971	90,168	3	91	89	0
1972	86,628	0	90	91	0
1973	96,775	2	95	94	0

[1] The estimates of consumption are based on actual production, the changes in optimal carryover and any insurance payment.
[2] The insurance payment equals any production shortfall from trend greater than 6 percent of trend production.

[8] For a price, it can be calculated more accurately.

PART III

The methodology discussed in Part I was used to examine the grain carryover situation for some regions and countries outside the developing market group. Below results are presented for the entire developing group treated as a unit, for the entire world treated as a unit, for China, and for the U.S.S.R.

The analysis of the developing market economies as a unit may be thought of as an approach to the effect relaxing of trade restrictions among these countries assumed in the previous section. The assumption is that the production and demands in these countries may be aggregated. Thus the only production variability which is a spur to carryover is that of the *sum* of the developing countries production. Given that the probability distribution of each country is not perfectly correlated, this sum will have proportionately less variation than the individual units outputs. The sort of world postulated is one with *no* variability-offsetting trade between the developing and industrial countries, but complete freedom of trade among the developing regions. Thus for example, a short harvest in South America causing a price rise there would imply an increase in net imports from other developing regions. Table 6 gives results for three situations for the all developing regions group. At a demand elasticity of -0.2 essentially no carryover was warranted so these results are not in the table. The differences between rows one and two are an example of the effect of the assumptions of constant absolute versus proportional variability. In row one each amount of deviation from trend production with equal probability of occurrence is held constant over time while in row two each of these deviations was assumed to grow at a rate of 3.1% per year beginning in 1970. Also the storage cost is $10/ton in row one versus $7.50 in row two, however, this has been shown to be rather insignificant in other contexts. Row three has results for the situation identical with row two. except that it includes the guarantee by outside sources that the supply would no be allowed to fall more than 6% below trend.

TABLE 6.—OPTIMAL CARRYOVER LEVELS FOR REGIONS

Region	Probability levels 0.5	0.75	0.95
All developing regions $10 per ton: constant variability	0.0	3.0	7.5
All developing regions $7.50 per ton: growing variability	2.0	5.0	11.0
All developing regions 6 percent policy	0	0	3.0

Note: $\beta=-0.1$, $\gamma=$ BEX $=0.0309$, r.o.i. $=0.05$ based year 1970 p = $100 per ton, trend production 304,000,000 tons col. 1 storage cost $10 per ton deviation growth rate = 0 col. 2 and 3 storage cost $7.50 per ton deviation growth rate = 0.0309.

The importance of free trade among these developing regions may be grasped by comparing rows two and three of Table 6 with Table 1 and Table 3. If the developing regions were to allow unencumbered trade, optimal storage for the whole group would fall to approximately what would be optimal for India itself in the case of no trade to offset variability. Further as row three indicates given an insurance scheme, internal carryovers would become very low indeed.

Treating the entire world as the unit of analysis is the case of free trade. The question is, given *world* variability in cereal production, how much are optimal carryovers at various production levels. (No insurance policy option was considered feasible in this case.) For a price elasticity of $\beta=-0.2$, the probability of positive outimal carryover in 1975 is essentially zero. With $\beta=-0.1$ and with growing variability over time, there is a 0.82 probability of 0.0 tons optimal carryover and a probability of 0.95 that optimal world carryover will be 10 million tons or less. This is out of an expected world production of 1.3 billion tons of cereals. Thus the case can be strongly made that the source of the need for grain storage to guard against the consequences of production variability is the trade restrictions which have been enacted world wide.

The optimal carryover model was also applied to the available Chinese data. Production data for fitting the trend line are available only for the years 1961–1973. Because only 12 points were therefore used to set the probability distribution, these results must be viewed with some healthy skepticism. Given a price elasticity of $\beta=-0.1$, with; 1970 price of $110/ton and quantity consumed of 168 million tons, expected production and variability growth rates 3.24% per year and insurance at zero, the optimal carryover results for China in 1975 showed a probability 0.59 that zero stocks should be held, and a probability of 0.93 that 4.0 million tons or less should be held. Since no shortfall of greater than 6% had been reported for China for the years 1961–1973, the insurance program was of no effect.

Lastly, the model was also applied to the U.S.S.R. both with and without the 6% insurance guarantee. The results are summarized in Table 7 while Table 8 presents a listing of the required payments from the insurance scheme for the U.S.S.R. for the years 1953 to 1973, the 20 years for which data were available.

The extreme position of the U.S.S.R. with respect to optimal grain carryover is made clear in Tables 7 and 8. Further Table 8 shows the great change in the magnitude of a world insurance operation if the U.S.S.R. were included. A point with respect to the U.S.S.R. results should be noted. The production trend line for the U.S.S.R. was the only regression among those reported that showed evidence of negative auto correlation among the disturbances. The Durbin Watson statistic was above 2.0 though not enough to reject the hypotheses of no auto correlation. However if there were a first order negative auto correlation process in the generating of the U.S.S.R. production trend then, as mentioned in Part I, the results reported would overstate optimistic Soviet carryovers. The amount of such an over estimate is not calculable with the present model.

TABLE 7.—OPTIMAL CARRYOVER LEVELS FOR USSR

[In million tons]

	Probability level		
	50 percent	75 percent	95 percent
U.S.S.R.—No insurance	18	29	44
U.S.S.R.—6 percent insurance	5	13	24

Note: $\beta = -0.10$; price $75 per ton, quantity consumed 167,000,000 tons for base year 1970. Growth in expected production, demand and variability 3.4 percent per year.

TABLE 8.—*Insurance payments to U.S.S.R., 1953–73, under guarantee for all shortfall in excess of 6 percent below trend—Zero payment in 15 of 21 years positive—Payment years and amounts listed*

[In millions of tons]

Year:	*Payment*
1967	0.9
1954	7.4
1953	7.5
1972	8.4
1965	18.3
1963	24.4

ARE TIGHT FOOD SUPPLIES AND HIGH FARM PRICES HERE TO STAY? [1]

(By D. Gale Johnson)

The question posed by the title of my talk is now quite frequently answered in the affirmative by large segments of the metropolitan press, national magazines of news and opinion, network television, and in speeches in the Congress. In fact, it now seems accurate to say that the conventional wisdom is that the United States and the rest of the world is in for an extended period of tight food supplies and significantly higher farm prices than we have had for the past decade or two.

It is my opinion that the conventional wisdom is wrong—seriously wrong and misleading—and is based primarily upon a simple minded extrapolation of recent events. And it may well be that so far as the agricultures in the major exporting countries are concerned, including the United States, that normal or average weather next year may bring about what could only be described as an agricultural recession. Through misinterpretation of the developments of the past two years we may well seriously misjudge what could occur in the near future.

[1] Office of Agricultural Economic Research, University of Chicago, paper No. 74:10, Sept. 27, 1974.

I shall use my time to develop two main points: First, the reasons why it is highly probable that in the next two years real farm prices will return to near the levels that we experienced prior to 1972 and, second, the reasons why it could be possible that normal or average weather next year in most agricultural regions could result in a sharp decline in farm prices of grains in the United States and the other major grain exporting nations.

THE RETURN TO LONG TERM TRENDS IN FOOD SUPPLIES AND REAL FARM PRICES

The keystone to changes in the levels of farm prices is the grains. If we look at the six decade period ending in 1971–72, we find a gradual but persistent decline in the real prices of the major grains—wheat and corn. After adjustment for changes in the prices that farmers paid for commodities and services used in the household and for production, the farm price of wheat for the 1971 crop was only 44 percent of the average farm price for 1910–14 and the corn price was only 49 percent. After including the direct payments received from government programs, the returns to farmers for wheat in 1971–72 was about 60 percent and for corn about 55 percent of the prices received six decades earlier.

Except for the effects of the devaluation of the dollar, which might increase the dollar prices of U.S. and Canadian farm exports by 10 to 15 percent, I can see no sound basis for believing that the long run downward movement in real grain prices will not reassert itself in the relatively near future. Because of inflation the absolute or nominal prices will be significantly higher than in 1971–72 or the years immediately before, but I am speaking of the level of real prices.

Let us review briefly the major reasons that have been given for a substantial increase in the real prices of grains and other farm products. Four major arguments have been made that purport to support the view that we have entered a new era of higher real grain prices. I do not believe that any one or all in combination can have more than a modest effect upon real grain prices. By modest effect I mean of the order of 5 to 10 percent and not more.[2]

It is argued that there is relatively little uncultivated land remaining in the world and that all of the diverted land has been returned to cultivation in the United States. There are substantial possibilities for expanding the cultivated land area in Africa, South America, Southeast Asia, North America and Australia. However, it is not at all certain that cultivating additional land is generlly the lowest cost means of expanding output. In the industrial countries and to an increasing extent in the developing countries, it has generally been cheaper to expand output through higher yield rather than by adding new land. Falling real grain prices during the past two decades have not provided the necessary incentives for bringing much new land into cultivation; higher yields have been responsible for most of the increased grain output. The potentials for yield increases in the developing countries are very great. In fact, there is no technological or biological reasons why grain yields per cultivated area should not be higher in the generally tropical or semi-tropical areas of the developing countries than in the temperate climates of the industrial countries. We should remember that only four decades ago that grain yields in the industrial and developing countries were the same and that it has only been in the past four decades that significant increases in grain yields have been achieved in the industrial countries.

A second argument is that increasing yields will result in higher real costs of producing grain. But it is not explained how it was possible to treble corn yields in the United States and reduce costs per unit by a substantial margin or to double wheat yields and also reduce costs. And the United States is not unique—similar relationships between increasing grain yields and lower unit costs are found in Canada, Australia, and Western Europe. A stated reason for higher costs associated with higher yields is that increasing yields will run into diminishing returns to fertilizer. While higher yields may require more fertilizer per unit of output, it does not follow that real costs will increase. Fertilizer is only one input and as yields increase, the productivity of other inputs increase and contribute to lower costs per unit of output. In addition, farmers learn—at least as fast if not faster than the rest of us—and do not continue to operate on the same fertilizer-yield function. As farmers become more experienced in the use of fertilizer, they use it more effectively through a multitude of adjustments—

[2] These possible effects are in addition to the adverse effects of an overvalued currency upon the prices of grain prior to 1972, but it should be remembered that the effects of the overvalued dollar were largely if not fully offset by direct government payments to grain producers.

changing seed varieties, greater plant densities, application timing, location of fertilizer in the soil. Fertilizer producers don't stand still either and provide more effective kinds of fertilizer. Farmers in the United States and other industrial countries use much more fertilizer on grain per hectare than is used in the developing countries. Yet the difference in the marginal grain response to fertilizer is small, probably not more than a quarter, indicating how erroneous it is to assume a common fertilizer-yield function.

If the real price of energy remains near its present level—as it could—there will be an increase in the real cost of producing grains. However, the effect can be exaggerated. True, energy is an important component in the cost of nitrogen fertilizer. Yet TVA estimates indicate that an increase in the price of natural gas from $0.20 per thousand cubic feet to $1.00 per thousand cubic feet would increase the plant-gate price of a ton of urea by $22 or approximately 24 percent. A final argument that has been made in support of the view that tight food supplies and higher real farm prices are here to stay is that rising affluence will place a major strain on the world's capacity to produce grain. I can see no evidence that the next decade will exhibit a more rapid increase in the demand for food than we have had during the past two decades. The world population growth rate has been stable for the past two decades and the growth rate is more likely to decline than to increase. So far as rising affluence is concerned, and I am considering the present slow down in economic growth as a short run aberration, I can see no evidence that per capita incomes in the industrial countries will increase at a greater rate than during the past two decades. Again, if there is to be a change it will most likely be a reduction in per capita growth rate in the industrial countries though the most reasonable assumption seems to be that of no change in the rate.

The attention given to rising affluence seems to have occurred from particular interpretations of data that indicate that in the United States our per capita consumption of grain is approximately a ton per year compared to about 400 pounds in India, China and many other developing countries. But the impact of rising influence on demand change must be reflected in changes in per capita use of grain, directly as food and through use as livestock feed. Since 1950 per capita use of grain in the United States has increased by just 14 percent—an annual rate of increase of 0.6 percent. For all private market industrial economies, FAO projected for 1970 to 1980 an increase in per capita use of grain from 516 to 555 kilograms or by 7.6 percent for the decade. The annual growth rate projected was 0.7 percent. The same growth rate was projected for the 20 years, 1970–90, for all developed countries. On the basis of FAO projections of changes in grain demand, the developed countries share of total grain demand would decline from 51 percent in 1970 to 48 percent in 1980.

As a curiosity I might note that per capita direct and indirect use of grain in the United States in 1971 was more than a sixth below what it was in 1909. Thus the total effects of affluence may not always be that of increasing per capita grain use, though as we look ahead per capita use of grain in the United States and other industrial countries will grow quite slowly due to increasing per capita incomes.

Thus looking at the world as a whole I can find no evidence that supports the expectation that the real cost of grain has been permanently increased or that tight food supplies are a permanent fixture. The trends that have for the past six decades result in a reduction of the real costs or prices of grains have not been permanently affected by recent events. Nor is there any evidence that we shall see a significant increase in the rate of growth of demand for grains, either in the industrial or developing countries. Affluence is not an increasing threat to the poor of the world.

IMBALANCES IN PRODUCTION AND DEMAND

But I do not want to leave a feeling of euphoria. While the overall balance between the world's demand and supply of grains and other foods should return to a relatively easy situation, if recent trends in growth of demand and production in the developing countries continue for the next decade or two their import needs will rise to shocking levels. The developed countries, primarily North America and Australia, have the capacity to produce enough grains to meet the import demands but there can be no assurance that the developing countries will have the means to pay for the desired level of grain imports. FAO has recently projected that the developing market economies might require grain imports in excess of 70 million tons by 1985—other projections have put the figure even higher.

Strenuous efforts must be made to both increase the growth rate of food production and reduce the growth rate of population if there is to be any significant improvement in the nutrition of poorest half of the world 's population. It is highly unlikely that the developing countries will have the capacity to import 70 to 80 million tons of grain by 1985; instead there would be little or no growth in per capita food supplies. Even with this level of imports per capita grain use in the developing countries would increase by only 0.5 percent annually.

The potentials for increasing the rate of growth of food production in the developing countries clearly exist. In terms of biology and technology we know how to increase the rate. What is uncertain is whether the political will exists in the industrial and developing countries to achieve a higher rate of growth.

A TEMPORARY AGRICULTURAL RECESSION?

I made the decision at least twice not to address myself to the possibility that there could be a sharp agricultural recession in 1975–76: First, I could end up looking like a fool, and, second, I don;t find what might be interpreted as scare predictions a satisfactory mode for a scholar. But as I reviewed the straws in the wind, so to speak, I could find no strong basis to ignore an important conclusion that has a probability of being true.

In order to avoid misunderstanding and misinterpreation, I must be quite precise. What I am stating is a projection, not a prodiction. A projection is a statement of an outcome if specified assumptions are correct; a prediction implies that one knows the value of all of the relevant variables and parameters. No one can say whether the critical assumptions in the projection will reflect actual events for the period.

There are two critical assumptions. One is that world grain production returns to trend level for 1975–76; the other is that the grain production in the major exportnig countries (United States, Canada and Australia) also be at trend levels in 1975–76. Another way of stating the assumptions is that there be something approximating normal or average whether for the world as a whole and for the major exporters and that adequate supplies of farm inputs will be available.

I hasten to add that the projection refers to a relatively short period of time and does not imply the conclusion that the intermediate run prospects for agriculture are bleak, though I obviously believe that recent levels of net farm income will not be maintained in the years ahead if there is average weather.

There are three basic factors that I believe can lead to a sharp fall in the level of grain prices in the major exporting market. The first is that the international market for grains is a relatively restricted one. It is restricted in the sense that for a large part of the world's population domestic consumption and production decisions are largely unaffected by the prices in the international market. National policies in Western Europe, the Soviet Union and the People's Republic of China have made it possible for these areas to avoid a response to the recent tight demand-supply situation. Farm prices of grain in the original six of the EC (except for Italy) have increased no more than 10 percent since mid-1972 in national currencies and the real farm prices of grains have fallen significantly. The Soviet Union has apparently increased its consumption of grain and by a not insignificant percentage since 1971. Thus almost all of the price impact of the disparate changes in world demand and supply of grains since 1971 has been imposed upon the major exporting countries and a number of low income developing countries that required additional grain imports to offset their production shortfalls. To a very considerable degree the trebling of international grain prices has been due to concentration of most of the supply-demand adjustment on the "only market in town," so to speak. If all of the world, or even all of the industrial world, had adjusted to the shifts in demand and supply for grains, the price increases would have been much smaller.

Based on past behavior I would not expect the countries that have adjusted very little to the tight demand-supply situation to adjust to significantly lower grain prices by increasing imports and lowering domestic prices where this would be required to achieve increased grain use. At least I would not expect such a reaction in the short run—within a period of a year. Thus the price elasticity of demand for imports in the countries specified would be very low, approaching zero.

The second is that the short run price elasticity of demand for grain in the world grain market (including the domestic markets of the major exporters) appears to be very low. In fact, recent price reactions to the disappointing grain crops in North America indicate that the short run price elasticity is no more than –0.25 and this is against variation of production, not for the world, but for North America and Australia. This estimate is somewhat speculative since it is based largely on the price response to the changed expectations concerning the North American grain crop from early June to the present time. It is not unreasonable to say that the reduction in the North American crop resulted in a fall in grain production expectations in North America and Australia of about 10 percent between early June and now. The December (new crop) futures prices of wheat and corn increased by 25 and 50 percent, respectively. If grain production in North America and Australia were to return to trend levels in 1975, this would imply grain production about 13 percent above the 1974 level. With a stable demand function this would push nominal prices below the farm price levels of June, 1974 of $3.57 for wheat and $2.57 for corn. Real prices would be significantly lower due to the continuing inflation.

A third factor is that the demand for feed grains in 1975–76 is likely to be below that of 1973–74 and 1974–75. The reduction in the demand for feed grains may already be having some tempering effect on prices. The leftward shift of the demand curve (a reduction in the amount demanded at a given price) for feed grains is one of the consequences of the increased slaughter of cattle that is now occurring. Some of the higher slaughter rate is due to adverse pasture conditions forcing herd reductions. However, the combination of greatly reduced movement of cattle into feedlots and the need to relate herds to feed availability has resulted in feeder cattle and calf and cow prices that will result in at least a stabilization of the size of the cattle herd. Until very recently cattle slaughter has increased very little for the past six years due to withholding to increase herd size. Simply stabilizing cattle numbers could increase total cattle and calf slaughter by about 6 million head annually.

Since beef now accounts for about three fifths of our total meat supply, an increase in cattle and calf slaughter of this magnitude would put a great deal of downward pressure not only on beef prices but also on pork and poultry prices. The adjustment in feedlot operations should keep the prices of fed steers in reasonable relations with feed prices and similar adjustments of pork and poultry producers to achieve a profitable feeding operation should have the same effect but these adjustments would reduce the demand for feed.

It should be remembered that it is not only in the United States that the cattle herd has been increasing for several years. The same expansion occurred in Australia, Canada and Western Europe. Because of the beef supply-demand situation in the European Community, which has called into play a variety of subsidy and price support operations, beef imports have been temporarily prohibited. If cattle herd liquidation starts, it is likely to take several years before beef slaughter will decrease and cattle herds start to increase again.

The large increase in grain prices that we saw in 1973—following the favorable grain crops of 1973—appears to have been due in part to demand for feed grains engendered by the high livestock prices that prevailed in the late summer and early fall of 1973. A grain crop at trend level for 1975 would face a radically different situation—a reduced demand level for grain fed livestock due to the large marketings of beef.

Under the assumptions made—trend level of grain production in the world and trend levels in the major grain exporting countries for 1975—the projection of radically lower grain prices for 1975–76 follows. The sharp grain price declines, if the grain production assumptions turn out to be accurate, would be exacerbated by the increase in beef slaughter that appears highly probable.

I am not predicting that grain prices will fall by 40 or 50 percent from the current levels within the next 12 to 18 months. Such a prediction cannot be made since we do not know how much grain will be produced in 1975. But if weather and other production conditions are average or slightly better in 1975 for the world as a whole and for the major grain exporters, it is highly probable that we will witness a temporary, but very sharp, fall in the nominal and real prices of grains in the major exporting countries.

I believe the fall in prices would be temporary in the sense that there would be some subsequent price recovery as the price elasticity of demand for grains increase with more time for adjustment and as there might be some reduction in the rate of liquidation of beef cattle due to the more favorable fed cattle-grain price relationships. If such should be the case, the output of pork and poultry would be favorably affected thus increasing the demand for feed.

CONCLUDING COMMENTS

We are now in a period of great uncertainty with respect to food supplies and prices. Stocks of grain and other foods are at very low levels. National policies in many countries have prevented the price system from rationing available supplies. If world grain crops in 1974–75 turn out to be smaller than now expected or if 1975–76 grain production is below trend levels by more than two or three percent or grain production in the major exporting countries is disappointing, grain prices could increase from their current levels. But if 1975–76 grain production is favorable for the world as a whole and for the major exporting countries, the circumstances are such that there could be sharp price declines in the exporting countries.

The price declines, if the assumptions turn out to be true, could be moderated significantly by accumulation of grain reserves. The opportunity to accumulate grain reserves could come much sooner than is generally expected.

Chairman HUMPHREY. I want to come back to you and talk about the reserve program. But, I believe we ought to move to Mr. Cochrane and then we will come to the questions.

Mr. JOHNSON. Yes.

Chairman HUMPHREY. We surely welcome you, Mr. Cochrane. It is good to see you back in Washington.

STATEMENT OF WILLARD W. COCHRANE, PROFESSOR, UNIVERSITY OF MINNESOTA

Mr. COCHRANE. Thank you, Senator Humphrey. I am pleased you have invited me.

I will now make some informal comments that I do not believe contradict my prepared statement, but they do not exactly follow the prepared statement.

I would like to begin by emphasizing the point that you emphasized; namely, that the shortrun food and export situation in the United States is highly uncertain. This is the major point of my talk.

It would appear to me that the world grain markets and the U.S. grain market are teetering at the present time between a sharp slide—if and when we get information that says crop conditions are good around the world; or teetering toward a sharp upward movement in prices if we begin to get some information that crop conditions are not good around the world.

Nobody can say at the moment which it is going to be.

Now, this riskiness in my judgment grows out of a number of things and I would list them as follows:

First, as we all know, the reserve stock cupboard is bare. So if crop conditions are poor, prices will then shoot upward more quickly than if people knew there were some stocks around.

Weather conditions in the United States at present are still unknown and yet all of us, I think, are more worried than we were in the past because of bad weather in recent years and a growing body of opinion that we may be entering a period of increased weather variability.

Next, crop conditions around the world in the temperate regions and monsoon regions at the present time are unknown. They cannot be known at present and the same possibility of increased weather variability causes us to be apprehensive about what might happen this year.

We do not know as yet what economic conditions at home are going to do and what they are going to do abroad. If the Japanese situation should deteriorate further this would mean a further decrease in the export demand for grain.

On the other hand, if Japan pops back, why, exports to Japan would probably increase.

The economic conditions in areas like Japan and Western Europe are made exceedingly uncertain by the energy uncertainty that overhangs us all. What happens to energy prices could cause Western Europe or Japan to go further into a depression or to pull out. This again affects demand for feed grains.

Last but not least, as we all know, loan levels are currently very low and if we have a good crop in 1975, which is a distinct possibility in light of known planning intentions, then we could have a tremendous drop in farm prices. There is nothing to stop prices from tumbling until they hit present low loan rates.

So the present situation is overladen, it seems to me, with uncertainty, and in my judgment it behooves the Government of the United States to take actions to reduce this uncertainty both to producers and the consumers of food in the United States.

Now I would like to talk about three actions that the Federal Government should take to reduce uncertainty. One will not reduce variability, but it will reduce uncertainty.

The first action: The Federal Government, particularly the USDA, could do a much better job of reporting crop conditions and critical developments in the agriculture area around the world than it is now doing. We get once a year, in December, a world agricultural situation report which attempts to be an outlook for the whole world.

Then we get tidbits of information thereafter that may come out in the Secretary's speech or the President's speech or miscellaneous publications.

What we need in my opinion is a world agricultural situation report issued every 2 months that provides additional information about world stocks, crop conditions, prospective world production by principal crops, and what critical problem areas may be emerging either on the consumption side or on the production side.

To do this and do a good job, the USDA will probably require additional funds. I recommend strongly that the Congress of the United States request the USDA to provide this better information and give them the funds to do it.

I do not say that this will reduce variability, but it will reduce uncertainty with respect to that variability and we can plan better and stop flying blind.

The next point I want to make is my major point today: The Federal Government should take the leadership in bringing into being an international grain reserve stock program.

The purpose of such a reserve stock program should be to even out world supplies of grain between crop years and thereby operate to stabilize world farm prices and food prices. A high degree of international price stability could be achieved by a reserve stock of grain which averaged 3 to 4 percent of total world grain production.

If the principal importing and exporting countries join in such a program the costs would not be unduly great for any one country.

When I am talking about 3 to 4 percent, I am talking about 50 million to 60 million tons of grain. But, all countries that were party to the program would need to agree upon the price stabilization objective which could reasonably be—I do not say it should be—but it could reasonably be the maintenance of an international price range of a plus or minus 15 percent of the average prices over the past 2 years. In such a situation, Mr. Chairman, each participating country would acquire stocks whenever prices fell 15 percent below the average price of the previous 2 years and each country would sell stocks when prices rose to 15 percent above the price stabilization target.

From work we are doing at Minnesota, I would judge that we could stabilize prices within this range 95 percent of the time with a stock that was no larger than 3 to 4 percent of world grain production.

I am talking here, though, about a true price-supply stabilization program to reduce the risk and uncertainty to producers and consumers around the world. I am not talking about a program to raise producer incomes nor a program to subsidize consumers.

In my experience talking about grain reserves around the country, it is the fear that an international grain reserve stock program is only the front for one of the other of these objectives that causes many people to turn a deaf ear to the whole stabilization idea.

We should further recognize, which my colleague Gale Johnson has, that the above kinds of programs will not solve the problem of people living in poverty either at home or abroad. We will still require food assistance programs at home to take care of those people living in poverty. And we will still—we, the world, will still require food assistance programs abroad.

The latter in my judgment could best be managed and operated by an international agency. Charity is better received and better offered, I believe, by an international agency than it is by a great power such as ourselves.

In my judgment this program will require stocks of up to 5 to 10 million tons of grain annually to meet the needs abroad. But what if the international grain stocks program fails to come into being either because countries cannot agree on its essential provisions or the United States fails to make the prodigious effort that will be required to bring such a program into being?

What then?

Well then the United States must decide whether to go it alone with a supply-price stabilization program or not. After a few more rides now on the farm-price rollercoaster such as we experienced in the past 3 years I predict the United States will attempt to stabilize its internal farm food price level once again.

But we should recognize that such a solo effort on the part of the United States in the international grain market when it is an integral part of that international grain market will not be easy.

The United States will either have to hold sufficient grain reserves to in effect stabilize world prices, in other words, hold the reserve of 50 to 60 million bushels all by itself—or we must in part insulate our stabilization effort from the world market.

In the event we should elect the latter course of action, go it alone and not try to stabilize the whole world price level but only our own, then we have got to take some actions that I am sure my friend Gale Johnson would not agree with but I would like to spell them out here for the committee so you will have in mind what at least in my judgment would be involved if the United States tries to effect a stabilization program alone.

I outlined these points in the essay that some of you have read; "Feast or Famine," and I would like to make those points again.

First, on the export side which, Senator Humphrey, you in your letter have asked particularly to have us address ourselves to.

Chairman HUMPHREY. Yes.

Mr. COCHRANE. The explicit points of an export policy where the United States goes it alone I think are the following: The United States should announce to the world its domestic requirements as well as the trade requirements of its regular foreign customers and indicate that those supply requirements will be protected by whatever management devices are required.

It should periodically, possibly every 3 months, announced the drawdowns in supplies that have occurred and indicate the extent to which domestic requirements and those of regular foreign customers can be met without the imposition of export management devices.

Food aid to the LDC's on terms should be adjusted to the situation or guaranteed in light of the situation.

I am simply saying here we should do what Gale Johnson said, we should decide ahead of time what we are prepared to do and announce it and this would become a part of the known total requirement.

Sales of grain and related commodities to state trading nations should be negotiated by the U.S. Government with respect to the total volume of sales, range of prices and other economic considerations such as transport subsidies.

Specific sales in the handling of grain could be conducted in the United States as in the past by private trading firms. But by this procedure the volume of sales to state trading nations would be limited to and made consistent with the guaranteed requirements discussed in point 1 above.

If the worldwide shortages were of such magnitude and the free exports to the United States were so large as to cut into the requirements guaranteed under point 1, then the United States should impose export controls after properly informing the world traders as indicated under point 2 above.

Exempt from these controls, of course, would be the already guaranteed exports to regular foreign purchasers. This would be the action of last resort to protect and guarantee domestic requirements and requirements of foreign purchasers regularly dependent upon the United States for supplies.

In other words, I am saying don't have an on-again, off-again policy with respect to export controls.

That really makes everybody furious. We should have an explicit export policy which tells people what we are trying to do in terms of protecting your own market and our regular customers. Keep the world informed as drawdowns occur, let everybody know that we are getting dangerously close to the point where, if exports continue at going rates, that the guaranteed markets will be cut into.

Then everybody will know whether export controls are then going to become a necessity to protect and stabilize the domestic price structure.

Chairman HUMPHREY. You may recall, Mr. Cochrane, I had something like that in a piece of legislation that I introduced last year and again this year.

Mr. COCHRANE. Right. On the other side, in periods of abundant supplies, if we are still going it alone, to keep domestic prices from sagging below the lower boundary of the price stabilization range and to keep the reserve stock vessel from overflowing the United States would require authority to impose import restrictions on grains and to impose some form of effective production control.

Since the above forms of control are so reprehensible to so many people one would think that the United States would be making that prodigious effort to bring into being an international grain reserve stock program where all the leading import nations and export nations were parties to the agreement and we could stabilize the total market without heavy use of these kinds of controls.

But to date this is not the case. Our Government is not making that effort. And certainly I doubt that the Soviet Union will because the Soviet Union must be pleased with its forays into international capitalistic grain markets and the bargains it has achieved. So they won't take the leadership. If anybody is going to take leadership, the United States will have to.

The third action to reduce uncertainty to producers is adjust farm commodity loan rates to realistic levels.

I suggest here as I have in other places that the loan rate for grain should be adjusted to the average world price of the past 3 years. Or possible to 90 percent of the average world price of the last 3 years.

This would mean that the U.S. loan rate would move up and down slowly through time and provide stability to producers.

Some very rough calculations that I have made—because it is hard to know whether one year ends and another begins—suggest that the loan rate for wheat would be slightly above $3 a bushel and the loan rate for corn would be slightly above $2 a bushel.

What I am talking about are loan rates close to those in the House bill. Such an action by the U.S. Government would greatly reduce the risk which currently confronts U.S. grain producers and contributes to all-out production in 1975–76.

In my prepared statement, Senator Humphrey, I have some comments on target prices and some comments on consumer food prices but I won't take up my time here to discuss those. If questions arise I would be happy to make that known.

Chairman HUMPHREY. Do I understand that basically you support the loan level rather than the target price?

Mr. COCHRANE. Well, what I say in my prepared statement is that, as an economist, I can't judge what a fair price to producers is. I think I know of a procedure to get at the concept of a fair price and I outline that procedure in my statement. I think it is very important, Senator Humphrey, that a procedure be established for setting fair prices or target prices because as I also say in my statement, where target prices are maintained by naked political power they can be reduced by naked political power.

It seems to me it is important to have some kind of an established, justifiable procedure for getting at these target prices.

I outline such a procedure in my prepared statement. But I would like to close by saying that in some respects Professor Johnson and

I are in agreement, and in some respects, we are not. But I would like very quickly to reiterate that I don't know what is going to happen in 1975.

If we have good weather and the crop acreage of an "intentions report" holds up, indicating then we are certainly going to get a big crop—then I would expect farm prices to decline substantially.

But in the long run of the next decade and the decade ahead, because of many problems, population growth, limitations on water, and limitations on other resouces, I do not expect the 1970's to look like the 1960's.

My best guess—and it can only be a guess—is that the real price of producing food and farm products in the world is going to rise over the next 10 years and certainly over the next 20 years, and I expect that the whole world food situation on a trend basis is going to look much different over the next 20 years than it did over the past 20 years.

The food price level will trend upward and then individual prices are going to zig and zag around the trend until we do something to stabilize them.

Chairman HUMPHREY. You have something on retail food prices here, Mr. Cochrane.

Mr. COCHRANE. Right, do you want me to comment on that?

Chairman HUMPHREY. Yes, I wish you would because this is, of course, of great concern to the American public; the relationship between these raw materials prices and food prices seems to be baffling to most of us.

Mr. COCHRANE. Well, first I think I will simply note what everybody else has noted; namely, that food prices sometimes rise slowly, sometimes they rise rapidly, sometimes they level off, but they rarely decline.

And they rise rapidly whenever we get a big increase in farm prices but they rarely go down when farm prices go down.

Now why should that be? I think it is true for three reasons. One reason is that there are large monopoly elements in the food distribution system. The very bigness of the food chains and the product discrimination that takes place in the selling of products suggests that there are monopoly, strong monopoly elements in the food distribution business and these monopoly elements hold prices up once they move up. And of course if the monopoly elements are there they return some of the monopoly profits to the people involved.

But I wouldn't want to overemphasize this monopoly element. It is there. But I don't think it is the most important cause of the continuing rise of food prices. I think it is one cause but not the most important.

I think the most important caue of rising food prices in a general sense—and then it breaks down into two components—is the increased cost of labor in the food package that the consumer buys.

This is of two types. One is increases in wage rates, which are throughout the economy, as well as the food sector, not matched by increases in productivity in the last 15 years.

In this case, we get a rise in food prices resulting from rising labor costs, not matched by increases in worker productivity. For the Nation as a whole, this has been very important in the last 10 years and I see no reason why it should be any less in the food distribution industry.

The other type is that food marketers and food producers have been extremely successful in selling the consumer on more and more convenience associated with food—TV dinners, all kinds of packaging, all kinds of frozen food, cake mixes and so on.

And the consumer has shown a willingness to buy this stuff. So what we have is an increasing amount of convenience sold with food; the consumer is told he has to have it, it is put in nice pretty packages and the consumer is buying it.

And a very large part of the increase in food prices is simply the building into raw farm products increased convenience and producing a more enticing food product, and a very great willingness on the part of consumers to buy food products embodying increased convenience.

Therefore, as I suggest in my prepared statement, because of the price inflexibilities throughout the economy, we probably cannot expect to see food prices come down but we should try to keep food prices from going up.

To do this I argue, one, that we ought to have a stronger antimonopoly policy throughout our whole economy, and particularly in the food sector, than anything we have ever seen in the past. Until we get such an antimonopoly policy I think talking about reducing food prices or any other retail prices is just whistling in the dark.

Second, we need an anti-inflationary policy where increases in wage rates are limited to increases in productivity. This we are not now doing, and to the extent that we don't, we are going to experience inflation growing out of rising wage rates not compensated for by increases in productivity.

Third, we ought to have a very strong consumer information program sponsored by the Federal Government which would help the consumer understand what it is he is buying, so he won't be continually sold on emotional type advertising such as we see on TV all the time that tries to induce the consumer to buy something because he might smell bad or she can save 10 minutes in the kitchen in order to get back to the TV to see more advertising.

It seems clear to me that we need a very strong consumer information program that will help save the consumer from himself and herself and also from Madison Avenue.

Chairman HUMPHREY. Thank you very much.

We are going to include in the record your entire statement, the entire text of your prepared statement along with the material that you have appended, the "Food, Agriculture, and Rural Welfare: Domestic Policies in an Uncertain World" article that was addressed to the meeting of the American Agricultural Economics Association, and any other material you would like to have included along with your prepared remarks this morning.

[The prepared statement and appended article of Mr. Cochrane follow:]

PREPARED STATEMENT OF WILLARD W. COCHRANE

In your letter, Senator Humphrey, of March 13, inviting me to testify before the Joint Economic Committee, you ask for my views on ". . . the outlook this year for production, farm prices, farm incomes and retail food prices." I can guess about the outlook, but I cannot at this time say anything definitive about production, farm prices or farm income. I do not make this negative statement because I am a cautious man, or because I have failed to do my homework. I make this statement because the next six months are highly uncertain with regard to farm production, prices and incomes in the United States. The weather has been highly variable at home and abroad for the past several years, and there is no way to know whether the weather will be favorable or unfavorable with regard to crop production in 1975. Next the U.S. is now an integral part of the world grain market and what happens to grain production in the Soviet Union or Australia is just as important as what happens in Kansas or Montana. We have reached that point with respect to commercial agriculture where if a farmer sneezes in the Punjab, another farmer may catch a cold in North Dakota. Finally, the grain reserve cupboard is bare, thus any short fall in production will initiate a scramble for scarce supplies and start prices shooting skyward. The short-run future is highly uncertain, and anyone not blessed with omniscience must wait and see what materializes.

There are, however, two important ways that this state of uncertainty, which hangs over all of us, could be reduced. First, the USDA has a far-flung information system which could and should be strengthened, but which, in its present state, is not too bad. The information gathered continuously by the USDA regarding crop production and commodity utilization and stocks around the world has in the past been published once a year in the *World Agricultural Situation*, usually in December; this world outlook report should be published regularly at least every two months. Some thought is currently being given to publishing this report three times a year. Perhaps the Joint Economic Committee could persuade the USDA to publish it regularly six times a year. We need such a regularly published outlook statement to provide all of us with the latest information regarding crop prospects, emerging famine areas and the supply situation around the world.

Second, given the average variability in world production of the past two decades of about 3 percent from trend, it is technically possible to even out supplies over time through the operation of a grain reserve stock program and stabilize prices within a reasonable range, say, plus or minus 15 percent of the present level of prices, with a high degree of probability. We have the technical capability to even out supplies and stabilize prices and income at a cost that is not exorbitant. But upon saying this, we must recognize at once that we are confronted with two critical questions. First, do we as a nation want to attempt to stabilize farm and food prices through the operation of a grain reserve program? Second, if the answer to the first question is yes, how do we organize to achieve the supply-price stabilization objective?

I have seen no opinion poll with respect to the desirability of a grain reserve program, but it is clear to me that many people in the United States, perhaps a majority, do not favor the development and implementation of a reserve stock program for the grains. But I feel certain that, if this administration would take the leadership in developing a reserve stock program, and point out that the potential magnitudes of the program—stocks and costs—were not out of this world, opposition to the idea would be reduced importantly. Further, if the mechanics of the program were developed and presented in such ways as to assure people that the program would not be subject to short-run political abuse, the opposition would melt away. In this connection I wish to make abundantly clear that what I am talking about here is a program to even out supplies of grain over time and thereby stabilize prices to consumers and producers alike. I am not talking about a program to enhance producer incomes or subsidize consumers. It is the fear that the reserve stock program is only a front for the accomplishment of one of the latter objectives which causes many people to view a reserve stock program with suspicion. Either of the latter objectives—the raising of producer incomes or the subsidizing of consumers—may be worthwhile, but each should rest on its own bottom (need), and neither should be mixed up with evening out supplies over time and stabilizing prices and incomes.

Assuming that the answer to the question—Should we have a grain reserve stock program? (which we recognize is not a settled question)—is affirmative, how should we organize for it? Ideally, the leading grain exporting nations (Australia, Canada and the U.S.) should join with the leading commercial importing nations (Japan and EEC), that most important in-and-outer, the Soviet Union, and any smaller nations that might wish to join (e.g., Thailand, Roumania), and agree to organize and operate an international grain reserve stock program. Such an agreement would need to cover the price stabilization objective (e.g., the price range within which world market prices would be stabilized so long as resources permitted), and the rules governing the acquisition and release of stocks. If the nation states mentioned above would agree to participate in a grain reserve stock program, and would faithfully observe the stock acquisition and dispersal rules, world grain supplies could be evened out over time and prices stabilized within a reasonable range without an undue burden on any of the participants. Under such an arrangement, consumers in the participating countries and most other countries would be assured of adequate supplies at reasonable prices, except in the most extreme situations, and producers would be protected against disastrous price declines.

But there would still be starving people in the world—those living in extreme poverty in the most economically underdeveloped nations (e.g., Bangladesh, countries in the Sahel region, India from time to time). If the developed nations and the new oil-rich nations want to assist the hungry and the starving in the poorest regions of the world, they must organize and finance food aid programs, over and above the International Grain Reserve Stock Program discussed above, and on a continuing basis, since neither these people nor their countries can afford to purchase the grain supplies needed. In my judgment, such a program should be operated under the aegis of the United Nations, as is now contemplated by the World Food Council; an international agency can provide charity with less stress and ill feeling than individual nations. But I would recommend to the U.S. government that it provide financial support for such a food assistance undertaking on a continuing basis if, and only if, each aid recipient nation agrees to organize and operate programs (1) to control population growth and (2) to increase the productive capacity of its agricultural plants that are satisfactory to the food aid agency. The successful implementation of the latter programs within the poverty-ridden nations may require both economic and technical assistance from the developed nations in addition to the food aid; if so, this assistance must be provided. But there is no sense in the United States providing food aid directly, or financial support for food aid to chronically hungry regions, if major efforts are not being made to eradicate the root causes of the chronic hunger.

But to return to the grain reserve stock program idea: if the leading grain importing and exporting nations, including that potential great destabilizer of international grain markets, the Soviet Union, are unwilling to participate in such an international program, then the United States must decide what is wants to do about stabilizing farm and food prices to its own producers and consumers. If it elects to pursue the price stabilization objective alone, then it has two basically different alternative routes to consider. First, it could carry sufficiently large reserve stocks to stabilize world grain prices. Such reserve stocks need be no larger, and perhaps not as large, as those carried in the late 1950's and early 1960's, if they are used efficiently and used only to stabilize world prices, not raise them. But many people, including myself, find such a policy objectionable. Why should we give the world a free food-price-stabilization ride? The other route involves acquiring a reserve stock of grain to achieve the desired price stabilization objective for us and our regular overseas customers (e.g., Japan, EEC), and then linking to the reserve stock program a fully explicit export and import policy to limit the export of grain when the *world price* rises above the upper boundary of the domestic price stabilization range or to limit the importation of grain when the *world price* falls below the lower boundary of the domestic price stabilization range. I outlined the essential points of an explicit export policy in the National Planning Association essay *Feast or Famine*. The essential points are:

1. It [the U.S.] should announce to the world its domestic requirements, as well as the trade requirements of its regular foreign customers, and indicate that those supply requirements will be protected by whatever management devices are required.

2. It should periodically, possibly every three months, announce the drawdowns in supply that have occurred and indicate the extent to which domestic requirements and those of regular foreign customers can be met without the imposition of export management devices.

3. Food aid exports to LDCs on concessional terms should be adjusted to the situation, or guaranteed in light of the situation, to protect the requirements of the United States and the needs of LDCs.

4. Sales of grains and related commodities to state trading nations should be negotiated by the U.S. government with respect to the total volume of sales,

range of prices and other economic considerations such as transport subsidies. Specific sales and the handling of grain would be conducted in the United States, as in the past, by private trading firms. But by this procedure, the volume of sales to state trading nations would be limited to and made consistent with the guaranteed requirements discussed in point 1.

5. If the worldwide shortage were of such magnitude and if free exports from the United States were so large as to cut into the requirements guaranteed under point 1, then the United States should impose export controls, after properly informing world traders as indicated under point 2. Exempt from these controls, of course, would be the already guaranteed exports to regular foreign purchasers. This would be the action of last resort, to protect and guarantee domestic requirements and the requirements of foreign purchasers regularly dependent on the United States for supplies.[1]

To keep domestic prices from sagging below the lower boundary of the price stabilization range and to keep the reserve stock vessel from overflowing, the United States would require the authority at all times:

(1) to impose import restrictions on grains, and

(2) to impose some form of production control.

Since many people dislike even thinking about the above kinds of economic control programs, let alone using them, one would think that a powerful incentive would exist for the United States to take the leadership in organizing a true International Grain Reserve Stock Program and to make the prodigious effort required to bring such an international program into operation. But such does not appear to be the case: the United States is not taking the leadership and is not making the effort. Thus, I am inclined to predict that the U.S. will back into some kind of a grain reserve program on its own, in which case, Senator Humphrey, it will require the kind of export policy and the import and production controls mentioned above, if that stabilization effort is to avoid disaster. I clearly favor an International Grain Reserve Stock Program, since it is consistent with and supportive of the world of freer trade which my friend D. Gale Johnson so strongly advocates. But I would be willing to support an effort by the United States alone to stabilize farm and food prices, if it went into the effort with its "eyes open" and recognized the implications of such a course of action.

In your letter of invitation, Senator Humphrey, you asked me to comment on the adequacy of the level of target prices. I assume that you want me to comment on the adequacy of the loan level, too. Turning first to the loan level: the loan level, in my view, can and should play the same role as the lower boundary of a price stabilization range; it should protect farmers against precipitous price and income declines. This the present loan level does not do. I have recommended elsewhere, and I recommend here, that the loan level for any particular year should be equal to the average world price for the last three years—or a three-year moving average. That would put the loan level for corn at somewhat above $2.00 for 1975, and the loan level for wheat somewhat above $3.00 for 1975. Clearly the present loan level for the grains is inadequate: with a good crop around the world in 1975, grain prices to U.S. producers could fall disastrously. At the present loan level for the grains, the risk element to U.S. producers is very great, and we cannot expect those producers to make the investments required for continued all-out production. If we want rapid increases in production in the U.S., we must reduce the risk element to farmers, and this can be done by maintaining commodity loan rates at realistic levels.

I find it more difficult to take hold of and discuss in a useful way, the target price issue. Here we run up against such questions as: What is a fair price for farmers? How much should farmers be subsidized? Which farmers should be subsidized? I do not know the answers to these questions. But let me suggest an approach for dealing with these difficult equity questions.

First we must decide who should receive help from the government in the way of supporting and enhancing their income. Since we as a nation have long favored a policy promoting and supporting a family-type agriculture, I can see where we would want, as a matter of national policy, to support the incomes of small to medium sized family farms, where such farms operate at some disadvantage. I can, however, see no reason why society should seek to protect and support

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[1] Willard W. Cochrane, *Feast or Famine: The Uncertain World of Food and Agriculture and Its Policy Implications for the United States,* National Planning Association, Report 136, February 1974, p. 16.

the incomes of operators of large, highly commercial farms whether those operations be single proprietorships or corporations. To my way of thinking there is no difference to society between a large fruit ranch and an automobile distributorship, or a large wheat farm and a chain of restaurants. In each case the firm is in business to provide society a good or service, for which it receives a return, and if it is in business at the right time and in the right place, and if it is run efficiently, it will earn profit. The government cannot and should not be asked to protect and support the income of each and every commercial enterprise in a free enterprise system.

If, however, society is desirous of maintaining a particular type of productive organization, such as the family type farm, which may be at some disadvantage in the modern commercial system, then society may need to support, or subsidize, that form of organization. And that would appear to be the case with small to medium sized family farms in some commodity lines. Thus, I recommend that the Congress request the USDA to provide it each year with information regarding costs and returns for different sized farms (small, medium and large) for different farming areas, and a recommended set of target prices that would yield the small to medium sized family operators a parity of income. And how do I define a parity of income? It is that income that the family farm operator would earn from his management, labor and invested capital in comparable nonfarm enterprises.

The approach that I am suggesting is not an easy one to follow. First the Congress would need to provide the USDA with special and additional funds to support this work. Second, there is probably no unique and optimal set of target prices to be derived; judgment would need to be employed at numerous points in any such research exercise. Third, there will be the question for both the researchers and the Congress to answer with respect to size categories of farms, and the appropriate cutoff points in the making of deficiency payments to farm operators. Fourth, but not least, there will be the question of how properly to treat land in the formulation and measurement of costs, where land prices tend to float with the product price level. But if we intend to support the incomes of small to medium sized family farmers as a means of maintaining a family-type agriculture, what rational alternative is there to the above approach? The parity price concept is for all practical purposes dead. Congress cannot pull target prices out of its "collective hat" each year as it did for the 1973 Act. Naked political support for generous target prices can easily be transformed into naked political support for niggardly target prices. And neither I, nor any other economist, has a crystal ball which will yield a socially desirable set of target prices year after year. To be fair to society, which is paying the bill, to be fair to those farm enterprises which must compete with subsidized ones and to achieve the policy objectives of society, the target prices must evolve out of the kind of research approach recommended above.

In another question, Senator Humphrey, you ask "what can be done to trim retail food prices?" Again there is no easy answer to your question. Without doubt there are some monopoly elements in the food processing and distribution system. The bigness of the food chains, and the product differentiation and advertising in food processing (e.g., cereal products) suggest the existence of monopoly behavior. Thus, a vigorous enforcement of the various existing anti-trust laws and the passage of some new anti-trust legislation might squeeze some monopoly profits out of the food industry and reduce food prices somewhat. But the Report of the National Commission of Food Marketing in 1966 indicated that corporate profits in the food industry are not unduly high, most functions are efficiently performed, and that few unnecessary functions, with the exception of competitive advertising, are performed. Thus, one gains the impression that food prices to the consumer can be reduced only modestly by the pursuit of a vigorous anti-monopoly policy in the food processing and distribution system.

Why then do food prices seem always to trend upward—sometimes rising sharply, sometimes rising slowly, and sometimes leveling off, but rarely declining? I can suggest two specific reasons: first, periodic increases in wage rates in the food industry not offset by increases in worker productivity; second, the continuous offering on the market of convenience foods (e.g., cereal products, frozen foods, complete dinners, ready to serve after heating) embodying increased human labor, and the continuous acceptance by consumers of these more costly food items. In both cases the retail price of food increases to the consumer because the labor cost of food in the processing and distribution system has risen and continues to rise in a persistent manner: in the first instance because of an increase in the price of the labor input and in the second instance because of an increased quantity of labor input.

What can be done about these two problems? With regard to the increased purchases of convenience food items (i.e., food with more labor attached), nothing can be done until consumers develop more resistance to the seductively prepared and packaged food items. But the development of some strong consumer agencies in the government, perhaps in a new Department of Consumer Affairs, that would inform consumers regularly and on a broad front regarding the quality, content and the cost breakdown of the products they buy, should make them more resistant to non-essential products. Such a consumer information program, vigorously implemented, should convert consumers into wiser, more informed buyers and help protect them from the barrage of emotion-packed advertising and misleading statements regarding products. In other words, a strong government-sponsored program could help save consumers from themselves and from Madison Avenue.

Increases in food prices resulting from increases in wage rates that are greater than increases in worker productivity will not be eliminated until we develop an effective anti-inflationary policy of which a key component is the holding of wage rate increases in an industry down to increases in worker productivity in that industry. Unfortunately, I see little inclination on the part of people in the United States to accept such an effective anti-inflationary policy. Each segment of society is more interested in trying to stay ahead of other segments; the inflationary race is with us in full swing.

Thus, I see little opportunity to reduce the retail price of food in the future except through falling farm product prices. And that could happen in 1975 or any future year, because the farm sector is highly competitive and the demand for the basic commodities is highly inelastic. But I don't think that either you, Senator Humphrey, or I, is interested in reducing food prices through a major break in farm prices. So where do we turn? We turn in a modern world of administered wage rates and industrial product prices, which are inflexible downward, to the pursuit of policies designed, I believe, to holding food price steady, and stopping them from rising rapidly. To do this, short of the imposition of price and wage controls, which is out of the question as a long-run solution, we must turn to the none too palatable suggestions made above: (1) an effective anti-inflation policy of which a key element is the limitation of wage increases in an industry to increases in worker productivity in that industry, (2) a more vigorous anti-trust, anti-monopoly program than any we have seen in the past, including new legislation to control non-factual advertising, limiting mergers and controlling conglomerates, and the breaking up of huge firms whose huge size is not based on economic grounds, and (3) the development of an effective consumer information program in the federal government. Short of these types of action we are only whistling in the dark with regard to limiting price increases in general, and to food price increases in particular.

In conclusion I should like to say that both the short- and long-run futures of the food and agricultural sector are highly uncertain. The recent planting intentions report suggests that we will get the necessary acreages planted in 1975 to harvest a much needed large crop. But parts of the Great Plains are very dry. We don't have the least idea, as yet, as to what weather conditions will be in our Corn Belt and in the monsoon regions around the world in 1975. We don't know as yet what course our own depression will run, and whether we are moving into a real international depression in which the agricultural export demands of Europe and Japan will fall off sharply. Loan rates to American farmers are, as of this time, clearly inadequate, and leave room for a major farm price decline in the United States. Reserve stocks are nonexistent, and a poor grain crop around the world could start grain and food prices moving upward once again. The world food and agricultural situation confronting us is one of great risk; it cries aloud to those who will listen to take action to reduce this risk. Thus, I have concentrated in this statement on the need to develop and implement a reserve stock program for the grains. Preferably such a program should be an international program, and I have argued that the United States should take the leadership in bringing such an international program into being. But if such an effort fails, the United States should consider the development and implementation of a grain reserve stock program that is national in scope.

Appended to this statement is a paper entitled, "Food, Agriculture and Rural Welfare: Domestic Policies in an Uncertain World," which I presented at the Annual Meeting of American Agricultural Economics Association in August

1974.[3] The ideas in this paper develop in more detail some of the ideas in my testimony today. That paper follows.

FOOD, AGRICULTURE, AND RURAL WELFARE: DOMESTIC POLICIES IN AN UNCERTAIN WORLD*

(By Willard W. Cochrane)

As the title suggests, this paper is concerned with the topics food, agriculture, and rural welfare and their interdependencies. It has become fashionable in recent years to discuss these topics in separate compartments, and for certain purposes such a separation can lead to productive results. But in seeking to focus on needed policy changes in the decade ahead for any one of these topics, I find that I am unable to do so constructively, without at the same time dealing with the policy problems of the other two. Thus, in this paper I attempt to deal with the interacting problems of all three subject areas.

I

Let me turn first to certain assumptions that I make about the state of food and agriculture and the behavior of farm people. These are things that I know that I know, or believe that I know, about the subject of this paper and which serve as constants in the analysis.

1. Changes in the production of food and the availability of supplies in the world economy are unpredictable beyond the current crop year. Natural forces (e.g., changes in the weather) and national economic policies (e.g., changes in trade policy by a state-trading nation) make this so.
2. Grain producers of the United States are an integral part of the world market; the vehicles of commercial trade and food aid have made this so.
3. The aggregate world demand for grain is highly inelastic. Thus any small change in the world supply of grain sends relatively large price shocks throughout the world trading system, including the United States.
4. Neither farmers nor consumers are happy with extreme and unpredictable price fluctuations. Farmers may wish for constantly rising farm product prices, and consumers for constantly falling farm product prices. But neither wants, and both seek to avoid, price uncertainty and extreme price fluctuations.
5. Farm people want, as do their nonfarm neighbors, real incomes and real levels of living comparable to those of urban people, and they demand policy actions which will permit them to earn such incomes.

II

Next, let me discuss certain broad forces that are at work in world agriculture and in the socioeconomic systems of the U.S. The velocity and direction of these forces can and do change over time, again with important implications for policy. Since I am not omniscient, I cannot predict future changes in the velocity and direction of these forces with accuracy; I can simply describe them as I perceive them in 1974 and indicate how and where I think they are propelling us. To the extent that those of you in the audience perceive them differently than I do, the results of your policy analysis will differ from mine. Let us consider seven such forces.

1. *A clean, unpolluted environment.*—This force has been gathering momentum in the Western World for a decade. The Federal Environmental Pesticides Control Act of 1972 is a concrete manifestation of this force with respect to American agriculture. The current energy crisis has dealt the environmental movement a setback. But the goal of a clean, unpolluted environment has become an important force in the Western World that will be with us indefinitely and may become even more powerful once the initial shock of the energy shortage has worn off.

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[3] Published in *American Journal of Agricultural Economics*, Vol. 56, No. 5, Dec. 1974.

*The author benefited importantly from the suggestions and criticisms of his colleagues Martin Abel, James Houck, Lee Martin, Mary Ryan, and W. B. Sundquist in the preparation of this paper.

NOTE.—Willard W Cochrane is professor of agricultural and applied economics at the University of Minnesota.

It has tremendous implications for agricultural production in the United States. In its mildest form it will spearhead drives to protect blackfooted ferrets and coyotes, protect and clean up water supplies (both surface and underground), expand nonproductive open spaces, and reduce air and noise pollution; in its most extreme form, it seeks a steady-state earth with zero rates of economic and population growth. Such actions will have the effect of reducing the usages of nondegradable chemicals in farm production, increase costs of transportation, increase the cost of farm technological advance, and in the zero rate of growth possibility, reduce the rate of growth in demand for farm products.

Simply stated, the drive to improve the quality of life (to achieve a cleaner, more attractive environment) in the industrialized nations of the West, as opposed to increasing the quantity of life (more goods and services), will have important implications for both producers and consumers of agricultural products.

2. *Energy usage.*—For 50 years or more we have been substituting cheap energy, embodied in efficient capital technologies, for expensive, inefficient labor and land. This process has resulted in great gains in productivity per acre, fantastic gains in productivity per farm worker, and except in certain emergencies (e.g., World War II, the past two years) caused output in the U.S. to expand more rapidly than demand. This has been a happy situation for consumers.

But every other sector in the U.S. has been using more energy too, and in the past two decades there has been a greatly increased usage of that cheap, easy-to-handle product, petroleum. Thus, within the past decade the consumption of petroleum in the U.S. has increased more rapidly than domestic production, and we have moved to an import basis. Experts differ with regard to the state of crude oil reserves in the world, but a projection of historical rates of growth in the consumption of petroleum will put a severe strain on, if not exhaust, those dwindling reserves over the next 30 to 40 years. Against this long-run prospect of petroleum shortages, the Persian Gulf cartel has through a series of monopolistic actions increased the price of crude oil three to four times over the past year.

Informed opinions vary as to whether crude oil prices and the prices of substitute sources of energy will rise, fall, or hold constant in the years immediately ahead. But events of the past year suggest to me that prices of gasoline, fertilizer, machines and equipment, and electric power will remain high in the years to come. And the long process of substituting cheap fossil fuel energy, particularly petroleum, for land and labor is going to be slowed down, hence gains in agricultural productivity from this source will be restricted. For how long, no one really knows, but certainly until technological developments provide us with a new source of cheap energy—perhaps from nuclear fusion, perhaps from solar sources. In my judgment this will be a matter of decades, not years.

3. *Farm production efficiency.*—Farm production efficiency increased persistently from 1950 to 1965. But since 1965 farm productivity has sputtered. Output per unit of input leveled off in the period 1967–70, shot upward in 1971, leveled off in 1972, and moved up again in 1973.

Predicting technological developments and their farm adoption is a risky business. But, from talking with agricultural scientists, I have discovered no great technological breakthroughs occurring on the international scene and no great technological development in the United States that now awaits farm adoption. There is much going on in the way of development and adoption, as we all know, but a technological advance on the order of hybrid corn does not appear to be "in the wings waiting to come on stage." It is my guess that farm technological advance and the resulting gains in productive efficiency will be halting and irregular during the coming decade.

4. *Farm population.*—The long decline in farm population in the U.S. would seem to be coming to an end. The number of people living on farms has held almost constant since 1970; in fact, the number increased modestly in 1972 and 1973. Similarly, farm employment has held almost constant at 4.4 million since 1970.

This suggests to me that agriculture during the coming decade will no longer be a contracting industry in terms of employment opportunities and no longer a declining force culturally and politically in the national society. It may start developing as the classical economists argued that agriculture should develop—with increasing employment, increasing costs, and rising land rents.

5. *World population growth.*—The population of the world continues to grow at a frightening speed. At present rates of growth the population of the world

is doubling every 30 to 40 years. As we know, the most rapid rates of population growth are occurring in the less developed countries where the people involved and the economic development processes involved can least afford such rates of growth.

To date, food production in the less developed world has, on the average, kept pace with or exceeded the rate of population growth. But I cannot be optimistic about the outcome of the long-run race between food production and population growth in the less developed world. Restrictions on land available for cultivation and supplies of water for irrigation, rising costs of energy and fertilizers, and rates of technological advance that are less spectacular than those associated with the Green Revolution of the late 1960s suggest to me that most LDC's will have great difficulty maintaining present rates of increase in agricultural production over the long run. If this is the case, then rates of population growth in those countries must come down; and they will come down either through purposive birth control actions or through the Malthusian controls of hunger, disease, and death. In the meantime, demands on the Western World to provide food aid to the less developed world will again become intense.

6. *The rising demand for meat in the developed world.*—Consumers in Japan, Western Europe, Eastern Europe, and the Soviet Union have experienced significant gains in real incomes in recent years. Given these income gains, those consumers want to do what American consumers have been doing, namely, eat more meat. And they are eating more meat. As a result, the demand for feed grains and oilseeds and oilseed products—the raw materials of meat production—emanating from these developed countries has increased steadily for a decade and increased spectacularly in the past two years. This strong demand for two of the leading export commodities of American agriculture, once thwarted by an overvalued currency and recently abetted by a devalued currency, was one, if not the leading, force in driving farm prices to record peacetime highs in 1973.

The demand for feed grains and oilseeds and oilseed products should continue to expand in the developed countries with their continued economic growth since the per capita consumption of meat in those countries is low when compared with the consumption of meat in the U.S. Can we, then, look forward to sustained economic growth in Japan, Western and Eastern Europe, and the Soviet Union, as well as certain of the more favored LDC's (e.g., Korea, Taiwan, Mexico)? Given the possibilities of war, energy crises, and runaway inflation, no man can say for certain, but on balance the economic future for much of the developed world looks strong and bright. This means that the world demand for animal products and feed grains and oilseeds should remain strong and the prices of those products buoyant.

7. *General price inflation.*—As we have noted, current and prospective energy shortages have caused the price of most nonfarm-produced inputs to rise, and social forces to improve the environment are likely to drive up the cost of producing food. But these have not been even minor contributing causes of the general price inflation experienced in the U.S. in recent years. The causes of the general price inflation are basically two in number: (1) excess purchasing power generated by loose fiscal and monetary policies at the national level, and (2) the widespread involvement of cost-push action wherein big labor and big business collaborate in passing wage increases along to the consumer in the form of higher prices. Both of these basic causes are at work in most Western industrialized nations, hence most of these nations are experiencing a general price inflation similar to that occurring in the U.S.

There is nothing to suggest that the general price inflation that we have lived through for the past seven or eight years will come to an end soon. We are learning to live with inflation. Every worker and retiree, too, now expects a cost-of-living increase each year. Such cost-of-living increases are then pushed along in the form of higher prices. And so the price-cost-price spiral continues.

During the past two years a tight world grain situation has operated to push farm and food prices to record high levels in the U.S. Several of the forces discussed in this section will operate to raise farm and food prices. Thus, rising farm and food prices could play a greater role in the future than they have in the long-run past in the price escalation process. The operation of the farm economy could in the future, as the record of the past year suggests, become the third basic contributing cause of general price inflation.

III

The model of the American agricultural economy that takes shape for the coming 10 years from the foregoing discussion may be described as follows. The prices of nonfarm-produced inputs are going to rise steadily. Additional land, generally of poorer quality than that now in production, will be drawn into cultivation. Increases in production efficiency will occur slowly and irregularly. The real cost of producing food will rise. The export demand for American farm products (based in part on the food needs of the LDC's, but more importantly on the upgrading of diets in the developed nations) will remain strong, causing the aggregate demand for farm products to press against aggregate supply. The real price of farm products will trend upward over the 10-year period. The increase in the real price of food will be fed into wage bargains, the loan-rate and target-price system of the farm programs, and the social security system and thereby further feed the inflationary fires.

In short, I am hypothesizing the long-run situation alluded to, but not developed, in my Fellow's Address of 1970. Events unforeseen by me at that time have telescoped the long-run situation into the present situation.

But my model describes an eventless situation and the resulting price trend. Even if I have captured the essence of the next 10 years in my model, the reality will be different in some unknown way. First, the weather will play tricks with the model. Second, important trading nations will take actions which cannot now be foreseen that will alter the flow of imports and exports (e.g., devalue their currency, raise import quotas, elect to build food stocks). Third, new wars could break out. Fourth, the fuel shortage could give rise to a severe economic depression in, for example, Japan and/or Western Europe. And given the extreme inelasticity of demand for the grains and the network of world trade of which the U.S. is now an integral part, the occurrence of any one or combination of the above unpredictable events could give rise to a sharp and major decline in farm prices with the return of physical surpluses in the U.S., or to a sharp and major rise in farm prices with a further tightening of stocks. The timing and magnitude of these roller-coaster-like movements in farm prices can in no way be predicted, since the events cannot be predicted.

The food and agricultural situation for the next 10 years which in my judgment confronts policy makers around the world, and in the U.S. in particular, is thus of the following form: a farm price level which gyrates in an extreme and unpredictable fashion around an upward trend in the real price of farm products, the latter of which contributes to the general inflationary spiral.

IV

What kind of national policy is needed to cope effectively with the kinds of developments in food and agriculture hypothesized above for the coming decade? First, that policy must have the capacity to deal with a continuing pressure of demand on supply, rising costs of producing food, and a long-run increase in the real price of food. This represents a new development for domestic agricultural policy. Second, the policy must have the capacity to turn around quickly to deal with short-run production and trade aberrations from trend—to deal with unpredictable short-run shortage and glut situations. Thus, the policy must be flexible—highly flexible.

How does the Agriculture and Consumer Protection Act of 1973 meet the test of these policy requirements? Tweeten and Plaxico give it high marks with respect to the flexibility requirement [5]. Although I am of the opinion that the 1973 Act may be the best farm bill ever passed, it fails the flexibility test with regard to loan rates and target prices since it projects them four years into the future at fixed levels. And the Act is silent with regard to a number of problems that are likely to be encountered in the food and agricultural sector during the coming decade. Thus I argue that new legislation will be required in the not too distant future either modifying the Act of 1973 or adding entirely new pieces. I turn now to those modifications and additions.

To render the new pricing concepts—the loan rate and the target price—relevant and socially productive in a situation in which the real price of food is trending upward, but in which farm prices in the short run are fluctuating unpredictably around the trend, the loan rate and the target price for each commodity should be reexamined each year in light of changing conditions and be reset for the crop year ahead. These prices should be set and announced each year by the chief officer in the food and agricultural area under guidelines established by Congress. The principal guideline for setting the loan rate should be a moving average, say, a three-year moving average, of the world price. The principal guideline for establishing the target price should be a price which yields a parity of income for an efficient-sized family farm.

One important area on which the Act of 1973 is silient is that dealing with a reserve stock program. This is strange, since it was passed in the midst of the greatest upward thrust in farm prices in peacetime history, and the title of the Act includes the phrase "Agriculture and Consumer Protection."

Basically, the United States in 1974 finds itself in the following position.

1. It is the largest supplier of food grains, feed grains, oilseeds, and oilseed products to the world market, and it is fully integrated into the world market.

2. Its reserve stocks are at a minimum; it is pursuing a "bare shelf" reserve stock policy.

3. Neither it, nor any other country, can predict supply-disposition developments beyond the current crop year.

Given the inelastic aggregate world demand for grain, a modest reduction in world cereal production in 1972 produced skyrocketing prices in the U.S. in 1973. Poor crops around the world in 1974–75 could give us more of the same in 1975–76. Or a series of good crops around the world, and bountiful supplies, could lead to a serious farm depression in the U.S. Such is the fate of a large residual supplier to the world market who is pursuing a bare-shelf, free-market policy, namely, the U.S.

If the U.S. is to reap the advantages of being a major supplier to the world market and avoid the disadvantages, it must develop a food and agricultural policy which enables it to sustain and increase its export sales while at the same time protecting itself from adverse, unpredictable worldwide market forces. *The cornerstone of this policy must be an effective reserve stock program.* The principal goal of this reserve stock program is the maintenance of a reasonably stable domestic farm price level—a level that moves within a defined range—acceptable to farmers and consumers alike. The lower side of this range might well be the loan rate for a given commodity, and the upper side the target price concept. In the effectuation of this price stabilization goal, the reserve stock program would operate as a giant balancing wheel, pouring supplies onto the market as individual commodity prices approached the upper side of the stabilization range, and withdrawing supplies from the market as prices dropped to the lower side of the stabilization range. Thus the program would seek to even out supplies coming onto the domestic market over time and thereby stabilize the farm price level within an acceptable range.

I will not attempt to lay out the operating mechanics, commodity magnitudes, and budget costs of an effective reserve stock program in this brief paper. In part, I dealt with these issues in my recent essay *Feast or Famine* [1, p. 14], and a good many others are currently at work on the basic features of a reserve stock program. But I would argue here, as strongly as I know how, that a reserve stock program properly integrated with a domestic supply management program and an explicit agricultural export policy is essential to food and farm price stability in the U.S.

Let us turn now to the courses of action that the U.S. will need to pursue if, as is hypothesized in this paper, the real price of food trends upward in the long run. But before we can discuss such courses of action meaningfully, we need some bearing on the gradient of that price trend. If, for example, energy prices level off and perhaps even decline modestly from present levels, and modest increases in farm prices bring additional land and labor into agricultural production, as well as induce significant farm technological advances *à la* Vernon Ruttan, so that the upward trend in farm and food prices is a moderate one, then we may need no resource and food distribution programs in addition to those already in the books. The above situation would represent a rerun of those wonderful years 1900 to 1914—increasing employment opportunities in agriculture, steadily rising farm asset values, and moderately rising food prices. An administration that came into office in such a period would be lucky indeed. It could win big by doing nothing.

But if energy prices should soar, world demands for agricultural commodities press strongly against supplies, and additional units of land and labor move into agricultural production in the U.S. only haltingly, then we could expect the real cost of producing food to rise sharply and painfully. Land rents would become excessive, the real incomes of consumers would be reduced significantly, and the inflationary spiral would be given increased impetus. In such an event strong pressures would certainly arise to modify old policies and programs and to add new ones.

Although I do not predict this latter unhappy development with any greater probability than I do a "second coming" of the "golden age" of agriculture, or something in between, I think that it is instructive to consider the policy implications of the pessimistic case. By investigating the policy implications of the pessimistic case, we gain perspective on the food and agricultural policy needs of the U.S. for the range of possible situations in which the real price of food is rising over the long run. So let us turn to the pessimistic case.

In the event that we move into a prolonged period in which the real price of food is rising rapidly, it will, I believe, be necessary to modify old policies and develop new ones in three general areas: (1) resource use, both physical and human, (2) production research and development, and (3) food distribution. With respect to the employment of physical resources, and keeping in mind the twin objectives of moderating the rise in the cost of producing food and protecting the environment, it may be necessary, for example, to ban the use of nondegradable chemicals and to provide incentive payments to producers to employ practices which conserve the soil and do not pollute the environment on the one hand, while subsidizing the use of energy in farm production and redirecting the use of water in irrigation through differential pricing on the other hand.

In other words, it may be necessary to develop a general resource policy with many and varied provisions, affecting all the principal physical inputs, with the multiple objectives of increasing output, reducing unit costs of production, and achieving a clean nonpolluted environment. Central to this concept of a general resource policy must be a holistic approach to resource use in which policy provisions governing the use of one resource (e.g., energy) are formulated and executed only after the interaction with all other inputs is considered and taken into account. Independent policies governing the use of each principal resource would lead to production chaos. A holistic, general physical resource policy aimed at reducing the cost of key inputs through subsidization could well be an indispensable part of any general solution to the problem of rapidly rising food prices over a long period of time.

To improve the quality of farm workers specifically and rural workers generally, hence improve their productivity, and to improve the real level of living of families living in rural areas, hence increase the supply of high quality labor in those areas, I suggest the need for a coordinated human resource policy. This policy should include programs in several areas. I suggest five important areas here: (1) education, (2) health care, (3) worker benefits and protection, (4) housing, and (5) community recreational services. The inferior quality of primary and secondary education in rural areas has been documented over and over again, and the great need to strengthen general and vocational education in rural schools has long been recognized. On human grounds it is time that this shortcoming be remedied. But in a prolonged period of rapidly rising costs of producing food, it is essential that effective action be taken to improve the quality of the working force available to agriculture.

The lack of adequate medical services and the poor quality of health care in rural areas has also been documented over and over again. The need for improved medical services and health care in rural areas is obvious. I do not need to state the case for it in this paper. What I need to do is state the case for the political will to do something about this human disaster area.

We should recognize once again, and in capital letters, that federal labor legislation has systematically discriminated against farm workers. Farm workers are excluded entirely, or in part, from the following federal benefit programs:

1. The right to bargain collectively;
2. Unemployment compensation;
3. Workmen's Compensation coverage;
4. Coverage under the Fair Labor Standards Act;
5. Coverage under the Federal Equal Pay Act. In some of the areas noted above farm workers are covered by state legislation. But that coverage is exceedingly uneven. What is needed, and what is coming slowly, is identical or comparable coverage for farm workers under federal legislation. Such federal coverage would greatly increase real levels of living in rural areas.

I cannot, because of limitations of time and space, enter into a discussion of ways and means of realizing the social goals noted above, even if I knew them, or of finding ways and means of providing decent housing for the rural poor or lifting the dreary sameness of small town living. But I must relate this discussion of rural welfare to the central argument of the paper. First, given the pessimistic scenario in which the real price of food is rising rapidly, and there is need to pull additional human and land resources into agricultural production, the improvements in rural welfare outlined above could well be necessary to call forth the additional supplies of labor that are needed. Second, if there is any logic in having society assist consumers of food and farm operators find solutions to their equity problems, then there must be logic in helping farm workers and agricultural service workers find solutions to their equity problems. Americans have been slow to recognize this logic, but slowly and inevitably, like the movement of a glacier, the recognition is coming.

If we as a nation encounter a prolonged period of sharply rising food prices, we will be forced to take a careful look at our research and development establishment. The agricltural research establishment of the U.S. has been held up to the world as a prize exhibit for many decades. But as we noted earlier, farm technological advance has sputtered during the past 10 years, and more recently the establishment has received some sharp criticism. The popular report *Hard Tomatoes, Hard Times* [2] dramatized some of the inadequacies of the Land Grant College complex, and the prestigious National Research Council of the National Academy of Sciences had this to say with respect to the program areas and organizational structures of both the U.S. Department of Agriculture and the state agricultural evperiment stations.

". . . It has found many programs of excellence both in terms of scientific quality and of mission. . . .

But to acknowledge these findings is not in itself adequate. Acknowledgment must also be made of findings that indicate that much of agricultural research is outmoded, pedestrian, and inefficient, and that bold moves are called for in reshaping administrative philosophies and organizations, in establishing goals and missions, in training and management of research scientists, and in allocation of resources." [4]

Because of the heavy emphasis on the training of technologists and scientists in the Land Grant College complex, on fighting day to day brush fires in the U.S. Department of Agriculture complex, and on the development of quick, high-payoff, salable technologies in the private industry complex, the important mission of developing basic scientific knowledge and converting that knowledge into new production technologies (e.g., hybrid corn) is not beng pressed. Each major component of the agricultural research establishment is busy doing its special thing, and the central mission of developing important new scientific concepts and transforming those concepts into improved production techniques is being bypassed.

Thus, if the pessimistic situation materializes, I feel sure that the agricultural research establishment will receive careful scrunity, and properly so, in an effort to increase agricultural productivity. I am not in a position to make specific recommendations regarding the reordering and restructuring of agricultural research. But of this I am sure—the political pressure to reorder and restructure will be very great, given the long-run pessimistic situation. Further, the pressure to take additional funds for research activities will be very great. But it will not be a free ride; the politicians are going to demand a technological payoff comparable to that which occurred in the 1940s and 1950s but this time with a cleaner, less polluted environment.

If food prices rise rapidly over an extended period of time, the political pressure to do something about the high cost of food will become intense. We have been discussing ways and means for dealing with soaring production costs in a long-run situation. But there will be strong demand for doing something about the price of food *now*. It is highly likely that there will be demands to roll back the retail price of food, which in a highly interdependent, complex economy such as that of the U.S. could only lead to production and distribution interruptions and chaos. And I am sure that there will be many and loud complaints against the middlemen, as consumers eat more and more T.V. dinners; but this, as always, will turn out to be a futile exercise.

What will be required, and what surely will occur after the necessary "backing and filling," is an expansion of food distribution programs, subsidized in part by the federal government, and aimed at specific needy groups. I have in mind the following:

1. A further expansion of the food stamp plan to assist all low income families;
2. Increasingly subsidized school lunch and preschool feeding programs to help protect these vulnerable age groups;
3. Subsidized in-plant feeding programs to reduce the clamor for wage increases;
4. Possibly direct food distribution programs for heavily depressed areas.

Some in the audience may be saying that we would not need these specialized food programs if we were wise enough to adopt a universal minimum-income program. To that I would say, "I agree," but until we adopt a universal minimum-income plan, we will have need for various kinds of specialized food distribution programs, and such programs will constitute an important part of the administrative machinery of government.

V

In conclusion I would like to turn to some organizational implications of the foregoing policy points. The reserve stock program with its objectives of evening out supplies and stabilizing prices over time could, without difficulty, be made one title of the Agriculture and Consumer Protection Act of 1973, and the program could be administered without difficulty in the presently constituted U.S. Department of Agriculture. In fact the logic of program operations suggests that it should be made an integral part of the USDA since (1) the operation of the reserve stock program would need to be related in a harmonious fashion to loan rate and target price concepts of the Act of 1973, and (2) the staff of the Commodity Credit Corporation has had valuable experience operating a large-scale storage program. Of course the basic mission of the reserve stock program proposed here would need to be spelled out clearly in legislation to insure against the subversion of that program by unsympathetic administrators.

But the scenario of a long-run upward trend in the real price of food, where the price trend is steeply inclined, represents something new, indeed. Americans in their whole history have had no experience with such a development. If it should occur, it would represent a fulfillment of the arguments set forth by the English classical economists with regard to agricultural development.

The policy measures required to moderate and make tolerable the pessimistic developmental situation would also represent a fundamental shift in farm policy. A coordinated resource policy would be required to insure a rapid growth in agriculture production. The spotlight would once again be turned on agricultural research and development, but this time to save society, not to assist farmers. And all aspects of surplus disposal would certainly be gone from the food distribution programs.

Now where and how should these wide-ranging policy measures be administered? It could be argued that these various programs should be severed one from another, with one going to the Department of Labor, others going to Health, Education and Welfare, and another to some new independent agency established to deal with the chronic food problem. Or it might be argued that these programs along with others in the USDA should be divided among the four super agencies proposed by President Nixon in 1971. But in the former organizational proposal all semblance of coordination among the programs would be lost, and in the latter organizational proposal the unique aspects of American agriculture and its special problems would be lost in super agencies dominated by an urban culture.

In my view the policy and program needs of the pessimistic developmental situation call, not for the scaling-down or the elimination of the present U.S. Department of Agriculture, but rather for a new and enlarged concept of that Department. In my view the Department should be given three distinct but highly interrelated missions: (1) the promotion of a prosperous and productive commercial agriculture, (2) the promoting of an efficient food distribution system in which the food requirements of vulnerable groups are assured, and (3) the promotion of rural economic development and the improvement of rural welfare. The U.S. Department of Agriculture should be enlarged in concept, restructured as to mission, and renamed the *Department of Food, Agriculture and Rural Welfare.*[1]

A department so structured would be in a strong position for dealing with the varied problems currently swirling around the food and agricultural sector. And it would have the structural capacity to grow and assume the responsibility for launching and coordinating the far-ranging policy measures required by the pessimistic developmental situation. I do not mean to suggest that a Department of

[1] For a good discussion of this point of view, see [3].

Food, Agriculture and Rural Welfare would become involved in (a) subsidizing different forms of energy to farmers, (b) operating vocational training programs in secondary schools, and (c) the establishment of collective bargaining machinery. But in the concept taking shape here, the Department would have an initiating responsibility and a coordinating responsibility even where actual program administration might fall in another department (e.g., an educational program for rural areas). Finally, I would argue that only a department as broadly structured with regard to mission as that envisaged here could hope to coordinate the varied policy measures that would of necessity be called into play to deal with a prolonged period of rising production costs and the price of food. If and when the world changes, so must policies and organizations.

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Chairman HUMPHREY. We are indebted to both of you for giving us the benefit of your counsel. I gather—if we can just pull together a few points—that both of you favor a food reserve program; is that correct, Mr. Johnson?

Mr. JOHNSON. Yes.

Chairman HUMPHREY. Mr. Cochrane.

Mr. COCHRANE. Yes. And I believe we favor an internationally organized one if at all possible.

Mr. JOHNSON. Yes.

Chairman HUMPHREY. Mr. Cochrane, I notice that your food reserve program would be along the lines of a world food structure under the auspices of some agency of the United Nations.

Mr. COCHRANE. I am not sure, but I am glad that you asked. It could be. But I am more inclined to think that it might take the form of an international agreement of protocol where individual countries operated according to an agreement with respect to the price stabilization objective and decision rules about the acquisition and disposition of stocks.

I think that is much more likely as a possibility and I personally don't see anything wrong with it. Although I don't really object to it being run by an international agency if it were done well. But too often I see international agencies not doing things very well.

So I think that my first preference would be an international agreement among the leading importers and exporters. You don't have to have every country in the world in.

Chairman HUMPHREY. I understand that. Yes, Congressman Long.

Representative LONG. If the gentleman would yield, I do understand that both of you feel that such an international reserve program will not get started or off the ground unless the United States takes the leadership in the development of it.

Is that not correct?

Mr. JOHNSON. I agree with Mr. Cochrane on that; the United States has to take the leadership and regardless of what the rights and wrongs are I think the United States ought to bear the major costs and responsibilities.

It may not have to bear all, but the consuming countries, primarily Western Europe, so far have shown almost no interest in this area although the events of the past few years may have revised their opinions somewhat.

But I agree with you, it has to be U.S. leadership and on the whole it must be a major role. The reason for the major role is that we are such a large part of the total world trade in grain so it has to be that way.

Chairman HUMPHREY. I think it is important to emphasize that. The reason I say so is because so many people who are critics of the international type of food reserve program even though it may be one that is held by the respective nations or respective countries, say, "Well, why is it that the United States has to take such a large share of the burden?"

The main reason is that we have a large share of the reserve stocks.

Mr. JOHNSON. That is right.

Chairman HUMPHREY. We are the biggest exporter of all.

Mr. COCHRANE. To continue with Mr. Johnson's remark, if this were done under an international agreement in which perhaps only three or four countries were involved, maybe Canada, maybe Japan, certainly the United States, then of course a major part of the reserve would actually be held in the United States.

If it were held under an international agency I think it would still be wise to hold the stocks near to where they were produced because that would minimize the cost of transport; you could move the grain in the direction you need it when you find out exactly what is involved.

Thus, I think the way it would turn out, whether the reserve program was run by an international agency or through an international agreement, a major part of the stocks would actually be in the United States.

Chairman HUMPHREY. I intend to support the international agreement approach. It would lay down certain rules and regulations as to the acquisition of stocks, the maintenance of stocks, the disposition of stocks, and all other matters that might have any adverse effect upon the marketplace.

Mr. COCHRANE. Right.

Chairman HUMPHREY. I think that is terribly important. You know that our Government's position today is that other people should have reserves but we should not.

Mr. COCHRANE. Well, I disagree with that position.

Chairman HUMPHREY. Mr. Johnson.

Mr. JOHNSON. Well, I am not quite sure that is altogether accurate. It is a question of by whom—Government or private trade—the reserves should be held.

Chairman HUMPHREY. Yes, that is correct. They do not feel that the Government should have reserves.

Mr. JOHNSON. Yes.

Chairman HUMPHREY. And without nonrecourse loans? How will you have the farmer hold the reserve if you can't have a loan to a farmer for a period that is at least 2 or 3 years in duration?

Mr. JOHNSON. That is right.

Chairman HUMPHREY. Yes.

Mr. COCHRANE. I want to speak to that point. It is, in my judgment, absolutely nonsense to argue that the private trade of farmers can hold stocks over crop years to stabilize a price level.

Each person is in business to make a profit—they have to be—whether it is a private trader or a farmer, and you might have to hold stocks for 2 or 3 or 4 years before you would need them the first time in which case the carryover would kill you.

And it is not true that you could cover this in a hedging operation. first, because the longest hedging contract is for a year and second, that the price. the next year's future has been for many years lower than the present crop futures which make it impossible to carry crop stocks from one year to the other and cover your carrying charges.

So in my judgment private firms will carry that amount of stocks which they need to do their business and that is a proper objective for them to do. They will not carry stocks to try to stabilize prices to the consumers and producers of the world because that is not their business and they can very rapidly go broke trying to do it.

Mr. JOHNSON. I would just like to comment on one thing further on this point.

In a very real sense I agree with Mr. Cochrane on this, that I do not think that by themselves, the American private trade would hold stocks that are large enough to meet significant variations in exports or in production.

I would say the primary reason for this is due to various governmental policies that exist around the world. Because in effect, it is only the American private market that is—or private interests, that are in a position to even have a chance to profitably hold stocks.

There is no way that a private person in the Common Market, for example, can afford to hold stocks because of the nature of the controls over prices. There has not been a single year since the common agricultural policy went into effect that you could have made a mark or a franc because the price variability from one year to the other does not cover the carrying costs.

In Canada, the carrying is outside of the range of the private market and it is only the U.S. private sector that operates in a market that makes it possible. I do not see that the U.S. private sector can afford to hold the size of stocks required in these circumstances.

Chairman HUMPHREY. Have you ever conveyed this information to the Department of Agriculture?

Mr. JOHNSON. Well, I keep writing it.

Chairman HUMPHREY. Well. I never found such obstinate people in all my life. I mean, it is like the teacher trying to say that two and two makes four and they say, "No, it doesn't."

I do not say they have to adopt a reserve policy, but I just wish they would convey the information. I have been listening to this testimony from the Secretary of Agriculture and some of his associates up there and they flatly ignore what you are saying.

I think, Mr. Johnson, that you or Mr. Cochrane are not representing a particular political point of view here. You represent the economic point of view.

We constantly get this talk that somehow or another reserves can all be handled by the private trade. I thoroughly agree that the private trades are in business to make money. They are not supposed to be running a public welfare program or a program to stabilize the market price.

For some reason or another we have a new religion around here or maybe it is an old religion, and it is that the private trade will take care of all of it.

I think that that is putting too much burden on the private trade.

Representative LONG. Following up on that point, Mr. Johnson, wouldn't the very fact that they are forced to carry these reserves, whether they want to or not, at certain times because of cost factors, be a major cause in these fluctuations that have been occurring up and down?

Mr. JOHNSON. I do not think it is the major cause.

Representative LONG. I did not say "the." I said "a."

Mr. JOHNSON. I do not know that I would say a major cause either. I think the major thing that we are talking about is given the degree of control over international trade in grains that exist that the private sector in the U.S. economy simply has neither the capital nor the incentive to hold stocks at levels of the type we are talking about.

In fact, it probably would be not so much that they sold at a high price when conditions changed, but simply there would not be enough to sell at that time, or there would be more to sell but the price would not go as high.

That is the way that reserves can have some impact on price variability, when prices——

Representative LONG. There is no question but that there is a relationship there. If they got stuck with a good bit of it, which they must hold over to that next year, and they have incurred costs as a result of holding it whether they be actual storage costs or merely interest charges on the money, that has to have an effect on what they get for that grain.

Mr. JOHNSON. It is not just what they have to get, but what they can get.

I think the concern is that on the average if stocks went the size Mr. Cochrane and I are talking about, if they went to that level that the time between acquisition and disposal would be so long—5 or 6 years, maybe—that there would be no possibility of gaining for the private trade.

Representative LONG. To pursue this point a little further and the relationship between Mr. Cochrane's statement and yours, Mr. Johnson—both of you agree with respect to the use of some reserves.

Mr. Cochrane advocates the use of export monitoring and a control mechanism more so than you do.

What value do you see those as having?

Mr. JOHNSON. Well, as I noted in my remarks, there is a very difficult problem of the U.S. export trade dealing with the Soviet Union and conceivably with China. So far, however, the variability in Chinese grain imports has not been large from year to year.

It has been growing, but the year-to-year variability has not been large. Though I would also say one could not rule out the possibility that 1 year out of the next 10 China might come into the world market for, say, 20 million tons of grain instead of 8.

I do not think one can rule that out. I do not know what the probabilities are that should be attached to it. I do think we have to attach—work out a different set of relationships with the Soviet Union. We have to work it out.

Hopefully, we can work it out with their cooperation and the Soviet Union could minimize its impact on the world market if it were to operate a reserve policy of its own of some magnitude.

The difficulty in recent years has apparently been that except for some military reserve conceivably, which we assume they have but we do not know, they have essentially followed a policy of no carryover from one year to another, or very limited carryover.

Thus, the Soviet Union is vulnerable in this regard. If agreement could be reached, if we had the information about the size of their stocks, then the problems of dealing with the Soviet Union would be greatly resolved. But if they will not hold stocks and, further, not provide us with information, then as opposed as I am—and I am opposed to controls over exports—in terms of—Mr. Cochrane might say—biases and so on, but I would say in the interest of the American farmers as well, then we may have to follow actions with respect to the Soviet Union which limits their access to the U.S. market if they will not cooperate with us.

Mr. COCHRANE. Could I comment on that?

Representative LONG. Please do.

Mr. COCHRANE. We are a little ways apart, but not too far.

I would like to comment that the Soviet Union is probably the greatest destabilizer that there is in the world grain market. There were two times in the 1960's when their production went down as much as it did in 1972, but they entered the world market only a little in each case—not to the overwhelming degree that they did in 1972–73.

So in the Soviet case, you have not only the weather and crop variability, you have the variability of the Government with respect to what they are prepared to do.

This is a very, very destabilizing element in the world grain market and it could possibly, because of the numbers involved, become even greater in the case of China. In the 1950's, thousands or maybe millions starved in China and they simply did not come into the market to do anything about it.

But if they had, it could have sent prices through the roof which is OK if our only interest is the income to wheat farmers.

But there are a lot of consumers in this country that we have to be concerned with, too, so I think we have to think in terms of both. We have to think in terms of both a food and agriculture policy and make them internally consistent and livable within our own country.

Representative LONG. Would it seem to you, Mr. Cochrane, that the Chinese society at least appears to be opening up more than it has in the past, that it has become, as you described it, the most unstabilizing or destabilizing force with respect to world grain markets, and that China might play an increasing role as a destabilizing force?

Mr. COCHRANE. If I were to guess, that would be my guess. If it has to be a guess, that would be my guess.

Representative LONG. That would be my guess, too.

Mr. COCHRANE. It is not only the opening up, but when a country begins to get above the starvation level and people get used to eating, they want to keep on eating and so if the government has any—is responsible and does not want upheavals, it does something about it.

So I am basing it on that ground.

Representative LONG. I am inclined to agree with you and I think this is why an international move in this regard is more important, because I think another destabilizing force is coming into effect here.

There's one other point perhaps you share differing views on, and a little background on it first. Back in the 1960's we kept hearing that the less developed nations shortly would be pretty well able to feed themselves. They were going to use this miracle rice that was developed and the miracle wheat that was developed, and they would become self-sufficient as a result of what was then properly called the Green Revolution.

Mr. Cochrane, in your article, "Feast or Famine," you indicate that this "revolution" may be over—and yet Mr. Johnson calls this the 1973–74 food scarcity that we found, and the price rise that resulted from it, perhaps a temporary aberration.

These seem to be contrary points of view.

Mr. COCHRANE. Let me comment quickly first, and then he can.

There is no question that the short crop in 1972 was what shot prices up in 1973. But the grain market, the world grain market had been tightening for several years and this was simply, in my view, the straw that broke the camel's back.

In 1968 I wrote a book called "The World Food Situation—A Guardedly Optimistic View" in which I, too, fell under the sway of the Green Revolution and felt that we could at least through the 1970's and 1980's produce all we needed.

The Green Revolution is not over, but in my judgment, the easy aspects of it are over and from now on it is going to be slow going ahead instead of running ahead. In my judgment, we have been increasing food production in the LDC's at about 2.7 percent or 2.8 percent per year.

We may do that through the 1970's, but it is my argument that we will do it and they will do it only with increased costs, with much greater investment in water management, fertilizer plants, in extension services, and all sorts of things.

Since I do not really think they will do it, then I think they are going to be running short of food more in the 1970's than they did in the 1960's and you put this alongside the destabilizing influences of the Soviets and possibly China, I have changed my views since 1968.

I am of the view that the 1970's and the 1980's and the 1990's are going to be increasingly tough in terms of getting the amount of food needed to match the increased population.

My own judgment is that the 1950's and 1960's may turn out in the long run of history of the world to have been the aberration, and that we are getting back now to that slugging match of trying to increase production against very great difficulties. Production will be increased but only in my judgment at heavy cost and therein, I think we may differ.

Representative LONG. Mr. Johnson.

Mr. JOHNSON. Yes, we do differ and only time will tell which position is more nearly the accurate one.

I think the impact of the so-called Green Revolution on the food supplies in the developing countries has been somewhat overemphasized as a result just of the words themselves, Green Revolution.

India, for example, was making very substantial progress in increasing food and grain supplies long before 1967. She did get a boost from the varieties of wheat and rice.

It is my anticipation that further developments of those varieties and the farming methods associated with them are continuing and will continue and that the capacity of the developing countries, if they consider the food problem to be serious, to expand production somewhat more rapidly than population is.

Clearly, there may be shortrun difficulties because of high cost nitrogen and other fertilizer supplies, though there exists in the world enormous reserves of natural gas, that could be used for the production of nitrogen fertlizer at very low cost.

But this depends upon a political act; namely, peace in the Middle East. There is far more natural gas wasted in the Middle East than is used to produce all the nitrogen fertilizer in the world that is now being produced and would need to be produced by 1980 or 1985.

And, if this resource can be made available, it would make an important contribution. But obviously there is an "if" there. Who knows whether the situation, or the circumstances will become settled enough in the Middle East to permit a large fraction of this highly viable resource to be used rather than wasted though there are some hopeful signs in that area.

The nitrogen plants are being constructed in the Middle East, but there could be many, many more.

I should not go on much longer. I would just say that I do, I guess, have confidence in the ingenuity of the human mind and up to this time in the world, we have not invested very much in research, in agriculture in the developing countries, and I would hope that the United States and the other industrial countries would make a major move within the very near future of assisting in the expansion of agriculture research in these parts of the world.

If we do, then I believe that the prospects for further food production advancing somewhat more rapidly than population would be greatly enhanced.

Chairman HUMPHREY. Yes, we surely appreciate your commentary here. We are going to move along to some other witnesses, but we want to just go into this export matter before you go.

May I say in reference to the points that you both are discussing on the available food supply for the coming decade or the next 10, 15, 20 years, the United Nations has a projection, as we know, which indicates that some food scarcity will plague the planet for the next 10 to 15 years.

The point that you are making, Mr. Johnson, I think is well made about the possibilities of better utilization of certain resources that we have. It is not emphasized sufficiently, though, the high capital cost of all of it.

We have assumed in the United States, for so long that somehow or another, if you could not do anything else, you could farm. This is the conventional wisdom, when, in fact, farming is a high-cost enterprise requiring a considerable amount of investment.

To get the production we do requires the use of expensive machinery, the best in seeds, the best in fertilizer; of course, much of the green revolution success was due to the utilization of not only better seeds, but also a great deal of fertilizer.

And, there is not any indication as yet that the price of fertilizer is coming down substantially, at least in the immediate future.

Also, the weather. There is a big argument as to whether or not we have had the better years in weather. We may be entering a cycle in which there will be more adverse weather conditions.

Finally, I agree with you, Mr. Johnson, about the research that is needed in tropical climates, and drylands agriculture such as we see in the arid areas of the world. Most of our research has been in the temperate zone and we have not done as much as we should in other areas.

And really it is a matter of how much money is available for research or how much the industrialized countries are willing to put into it.

On the matter of exports, gentlemen, one month ago, the Department of Agriculture as you know, disengaged regulations on prior-reporting by exporters of large orders which were then subject to veto by the USDA. I should point out that farmers were pleased with that order removing the effect of those regulations because farmers are worried about Government tampering with exports. We now gather export data on a weekly basis which is made available no sooner than the following week. The data is not audited either. We have no export licensing requirements. We have no concurrent reporting requirements for export sales or contracts. We have no management rules or controls. And we have no export monitoring mechanism that you could really call effective.

Now, I think when you discuss exports, any kind of export management, you have to put it in two separate and distinct areas, one where you have an abundance of crop where you obviously don't need any export management or any export controls.

But if you get into a situation where you have a very short supply of domestic grain for our own people, which precipitates incredible price rises to a vast consuming public, and then on top of that, you have destabilization from the Soviet Union which says it wants to buy a lot of grain, isn't it desirable to at least have something of a protective mechanism that can either bring some of these exports into the next crop year, or that you can have some way of monitoring so you know what is happening to you?

I foresee for example, this possibility: One of the OPEC countries may well find that if the prices of farm commodities continue to slide, they may say, "That's a good buy, why don't we buy it up and hold it off the market? If we buy it up cheap and hold it off the market, we cannot only stick the United States with high oil costs but we can sell their own food back to them at high prices."

There is no reason at all that Saudi Arabia could not step in and buy all we produce. They just might come in and say "I'll take a contract for everything. Just put it in our name."

They can do that right now. They made that much off us last year.

Now, what are we going to do about something like that? Do we want to just stand around here and say "We pray the good Lord takes care of us," and "Those folks in the Arab countries love us and they wouldn't do that." Well, they slipped us the oil embargo and quadrupled the price of oil.

Do you gentlemen have any asssurance that they might not want to quadruple the price of food that we produce? They could buy cheap and sell it back to us high.

Mr. COCHRANE. Well, first, Senator Humphrey, I would argue if we had the kind of international grain reserve stock program that I was talking about and that Mr. Johnson generally agreed with, we would stabilize these prices within a quite reasonable range and we would take the heat off of needing any tough explicit export controls.

I would recommend that you or your staff note that in my testimony I differentiated between when we are going it alone, or if we are successful in getting an international reserve stock program. We can stabilize supplies and price, I think in all but the most extreme cases with a reserve stock of say 50 million to 60 million tons. But if we have to go it alone and try to stabilize supplies and prices to ourselves then I completely agree with you that we do need, I think, what I would like to call an explicit export policy.

Chairman HUMPHREY. Policy, yes.

Mr. COCHRANE. And I outlined that in my remarks.

Chairman HUMPHREY. Mr. Johnson, what is your view on that?

Mr. JOHNSON. Well, back to the specific question about some other country buying up our grain supply, and then selling it back to us; I think this is exceedingly unlikely. Obviously I can't say it never could happen.

Chairman HUMPHREY. They did it on soybeans.

Mr. JOHNSON. Well, of course, I don't——

Chairman HUMPHREY. I can remember one time in one case where an Italian company bought soybeans at $8 and sold them back to the American market at $11 or $12.

Mr. JOHNSON. Obviously there can be this speculation by both private firms and by government. I would say the major speculators in food commodities was in the sugar market in 1974, and they were not the private traders, but governments.

Chairman HUMPHREY. Exactly.

Mr. JOHNSON. The Common Market, and so on.

Chairman HUMPHREY. And those were paupers compared to the OPEC countries. The OPEC countries don't mind spending $10 billion for tips. They go on out here and spend it in Las Vegas. They lose $15 million a night. I am being very serious about this. I am talking about countries that have billions—billions of dollars. In fact it is estimated that by 1980 they will have between $250 billion and $500 billion that they don't know what they are going to do with.

I just wondered, you know, if I were in their position and looked around and saw wheat go down to $2.80 and thought I could put it up to $6. Why not buy? Why not own it, along with General Motors?

Don't you think we ought to take a look at that theoretical possibility, Mr. Johnson?

Mr. JOHNSON. Well, I think we could do that, though obviously to have the kinds of impacts, the effects that you are talking about, there has to be one of two things true. One, they are a better judge of where the market will go than we are, particularly if they want to sell it back to us.

Chairman HUMPHREY. But if they owned it and held it off the market, they would jiggle the market. The best way to take control of the market is, obviously, to control it.

Mr. JOHNSON. But in order to make gain you have to be able to see it.

Chairman HUMPHREY. Yes, but people get hungry. Who has the most to lose? Who likes to eat more than Americans?

We eat more—we waste more wheat in the garbage can than most people eat in a month. It's perfectly obvious. I am not trying to be ridiculous. I am worried about this matter.

For example, I read every day in the Wall Street Journal, which doesn't understand anything about agriculture, about how the OPEC countries may go into the stock market. But they never talk about what they can do in the commodity exchange market. I want to know what is going on there. I want to know what protections we ought to have against that sort of thing. That is all I am asking you about.

What kind of export policies should be in effect, what policies should we have?

Mr. JOHNSON. Well, I think I have made it fairly clear that except for our dealings with the Soviet Union and perhaps with China, that while there are risks that are involved. I believe that our export market should be open. I do believe that in order to keep it open that we may well have to hold more reserves than would otherwise be the case in terms of our own interests in providing food and feed for the American economy.

We will need more than what would be required for that.

So I have argued for reserve policies on that grounds, that they are a mechanism, as Mr. Cochrane says, for achieving a degree of price stability and also achieving a security of supply to a willing and ordinary buyer.

Chairman HUMPHREY. I agree with that and I think that is basically the answer. But my point is, when I get to the Department of Agriculture they are against reserves and against an export policy.

We have to have a policy. And the policy we seem to have today is that everything is going to be jim-dandy. So what happens? We slap an embargo on soybeans which has hurt us to no end. I am opposed to embargoes. I think what we need to have is a policy that people understand. For example, if you are in a situation of short supply, and that isn't hard to determine, then you want to have at least some protection that nobody can come in and buy at over 120 percent of what was their normal buy; or say 25 percent above their normal purchase.

That would keep out some big speculator or these country-managed trading systems.

You know we have two worlds. It's back to my old argument with Mr. Butz. He talks about the "free market." Well, that's in Purina. That's got nothing to do with what is going on in Poland, in China, in the Soviet Union, or even the Common Market. They don't have a free market. You just can't talk free market jargon here and be realistic without either duping yourself or deceiving the public. I think one of them is bad enough, but to deceive the public along with deceiving yourself is unforgivable.

Now, I am perfectly willing to go along with a really wide open export policy if you have the reserves. But I am opposed to this kind of talk that you don't need an export policy and you don't need any reserves because what ends up happening is, first, it's a speculator's paradise; second, it is dangerous to the consumer; and it leaves this country at the mercy of large purchasers.

There is something more important in this country than a dollar in your pocket. There may be such a thing called national security. We heard a speech on it by the President, and it was a good speech last night, except that when we talk about national security we have to talk about food, too. But there wasn't one word said about food in that speech.

We talk about energy; we talk about military assistance; we talk about trade; but we didn't have one single word about food supplies, as if somehow or other it is just going to be here; and farmers are just going to take care of everything.

But I just can't buy it.

Thank you, gentlemen. We will let you go for a while and we appreciate very much your excellent statements that you presented to us this morning. They are outstanding.

We have three witnesses next, Mr. Lewis, Mr. Datt, and Mr. Carpenter. Mr. Robert Lewis is with the National Farmers Union; Mr. John Datt is with the American Farm Bureau Federation; and Mr. L. C. Carpenter is with Midcontinent Farmers Association.

I ask unanimous consent that there be inserted in the record at this point an article entitled "Current Agricultural Data" which gives the current prices of agricultural products along with certain other economic information that pertains to the agricultural economy.

[The information follows:]

CURRENT AGRICULTURAL DATA [1]

Prices:

- Milk (Minn.): $6.86 per hundredweight *vs.* $8.15 last April.
- Cheddar Cheese: (40 lb block, Wisc.): 77¢ lb. *vs.* 91¢ last March, 1974.
- All Farm Products: 15 percent below March, 1974.
  - Wheat: down 28 percent from February, 1974.
  - Food Grains: down 24 percent from February, 1974.
  - Cotton: down 39 percent from February, 1974.
  - Meat Animals: down 28 percent from February, 1974.
- Farm Prices have now fallen 5 months in a row.
  - From January to March:
    - Corn down 16 percent.
    - Wheat down 20 percent.
    - Soybeans down 24 percent.
- Farm Production Costs: 17 percent higher than in March, 1974.
  - Fertilizer: 81 percent above February, 1974.
  - Seed: 20 percent above February, 1974.
  - Farm Machinery: 23 percent above February, 1974.
- Farm production costs rose $10 billion alone in 1974 to a total of $75 billion. They are now double 1969 levels.
- Retail food prices rose 12 percent in 1974, and rose 30 percent in 1973 and 1974. They are up 62 percent since 1967.

Farm-Retail Spread: Widened 18 percent in 1974. It has widened 19 percent in the past 12 months.

Share of disposable income spent on food by consumers:

[1] Prepared by the Joint Economic Committee, Congress of the United States.

15.9 percent in 1973.
16.8 percent in 1974.
Net Farm Income:
1972: $17.5 billion.
1973 $32.2 billion.
1974: $27.2 billion.
1975 (Federal Reserve Bank of Chicago now estimates that it will fall below $20 billion.)

NOTE: Because of falling prices, from the 4th quarter of 1973 to the 4th quarter of 1974, farm incomes fell 37 percent.

Per capita disposable personal income

1971:		1973:	
Farm	2,600	Farm	4,800
Non-Farm	3,500	Non-Farm	4,300
1972:		1974:	
Farm	3,000	Farm	4,570
Non-Farm	3,800	Non-Farm	4,625

1975 estimate is for a 30-percent drop in farm income.

Farmer's share of the consumer food dollar:
46¢ one year ago
39¢ now
Export Sales of Agriculture products:
1972: $8 billion
1973: $18 billion
1974: $21.3 billion

Chairman HUMPHREY. Please proceed, Mr. Lewis.

STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY, NATIONAL FARMERS UNION

Mr LEWIS. I have a statement with two attachments which I will submit for the record, and I will abbreviate the content, stressing one point quickly that I think is particularly urgent. That is: That agriculture needs to be recognized as our country's strong suit in a world economy that is swiftly turning to our disadvantage.

Colonialism came to an end, politically, after World War II, and now we are just beginning to see the economic consequences. The most dramatic illustration is the action that has been taken by about a dozen oil exporting countries which only a few years ago were considered as weak, poor, ignorant, and incompetent.

The industrialized countries have been pumping their oil, and importing it at prices that were cheap even after allowing for huge profits to international oil companies.

But the oil exporting countries have put an end to that, and I think forever.

As the Shah of Iran has said, there is only 25 to 50 years more of oil left in his country, and while it lasts he is determined to get all he can for it, to get as big a stake in the world economy for his country as he possibly can.

I think oil is only the first dramatic illustration of this consequence of the end of colonialism. Exporters of other scarce raw materials are already or soon will be doing much the same. In the years ahead we can be sure that we will encounter hard bargaining by suppliers of all kinds of raw materials that cannot do without.

The hard bargaining is not likely to stop with raw materials either. What the developing countries have in the greatest abundance of all is cheap labor. There are literally hundreds of millions of people in Asia, in South America and in Africa who are unemployed.

We in the United States managed to keep unemployment down below 4 percent through most of the 1950's and 1960's and we are now justly distressed with unemployment up at around 9 percent. But in many of these poor countries actual unemployment is around 20 to 30 percent. And more than half of the people who do have jobs don't have jobs that are worthy of the name, and they earn only a few cents a day.

The enormous need for employment in these developing countries and the enormous political pressure upon all their governments to create jobs and find markets for the products of their labor has set the stage for a second world-wide economic shock which I believe will be far more profound than the quadrupling of oil prices has been.

We have been put on notice by some of the leaders of these countries. I would like to paraphrase a recent quotation from Sheik Yamani, Minister of Petroleum in Saudi Arabia, as follows:

> Why should we sell oil and iron ore and bauxite to you, [he says, speaking for the developing countries] so that you can smelt steel and aluminum and make plastics and then make automobiles and refrigerators and washing machines and sell thme back to us at high price. We think it would be better for us to invest our oil profits to build our own refineries and smelters and factories in countries that have a lot of unemployed workers, and then you can buy our energy from us in the form of manufactured products.

Mr. Chairman, I think this paraphrased quotation is a thumbnail sketch of the future world economy.

In this kind of a situation, Mr. Chairman, we need to make the very most of our food power for the benefit of the United States and its role in the world and its security in the world. Our food power is being undermined by what can be best characterized as a cheap food policy, with three principal components.

One is the boom-and-bust agriculture policies that are now espoused in the United States by the present administration. We are all familiar with that.

The aim is to—well, as Secretary Butz calls it, "put an end to 40 years of wandering through the wilderness." I wonder whether this doesn't bring us right back to the point where we started in the Great Depression, rather than to some new promised land.

Another component of the cheap food policy is the restrictions that are enforced by all the industrialized countries including the United States against the kinds of goods that could be made and sold and exported into the rich country markets by the poor countries in order to earn the means to buy enough to eat.

The highest tariff barriers on Earth are those that are applied against labor-intensive manufactured goods. The world economy is rigged against the poor and unemployed people of the world who are hungry.

And a third component that is now beginning to take form is a policy of subsidizing and promoting competing agricultural elements in the world to compete against American farmers and the farmers of other advanced countries.

There have been many illustrations of this. The most recent that comes to mind is a speech made by the Secretary of State, Henry Kissinger, I believe it was in Houston, Tex., about a month ago, on March 1, 1975, in which he pledged U.S. financial and moral and technical support to promote the expansion of food production in Latin America—for export, Mr. Chairman, not to enable the subsistence farmers of eastern Brazil to produce enough for their families or themselves, but to make Latin America, again, a competitor in the export market for food products.

I think, Mr. Chairman, that we need to make up our minds in this country to make the most of our food power, instead of hampering and hamstringing and selling short our farmers. We should make up our minds to support U.S. farmers at full parity prices, and corollary with that, we should make up our minds to make full use of all our farmers can produce at full parity prices, by aggressively expanding markets and expanding trade with the hungry countries.

We need to repeat with India, Indonesia, the Philippines, and many of the other countries of tropical Africa and Central and South America and southern Asia, the kind of remarkable development that we undertook through the Food-for-Peace program in Japan, in South Korea, Taiwan, Hong Kong, Israel, and Singapore. We need to develop a dynamic expanding trade, two-way trade, with all these other countries to exchange whatever it is that they can make and sell to earn the money to buy the food that we can produce so abundantly in the United States.

The recent experience of what has happened in what we might call the oil belt, extending from Morocco on the Atlantic coast, all the way to Iran beyond the Caspian Sea in Central Asia, shows what can be done.

In that case, it is increased revenue from oil that has generated the increased purchasing power which in 1974 tripled imports into this region of U.S. farm commodities over the year before. Foreign imports in those countries in 1974 are 13 times as large as the average of the preceding 5 years.

This illustrates the enormous potential that there is in the world to expand demand. I think, in our own interests as a country, in the interests of our consumers, and in the interests of our national power and influence in the world, that we need to expand the usefulness of our food in exchange for whatever it is that we in America need, and whatever it is that any other country in the world can produce that we can make use of.

Thank you.

Chairman HUMPHREY. Now, we will include at this point in the record your prepared statement, Mr. Lewis. I would also like to include the statements that you brought along with you that you referred to in your oral statement.

It is your statement to the Western Governors Conference on Agriculture at Billings, Mont., and the statement of Mr. Dechant, at the White House Conference on the Economy, September 12 and 13, 1974.

They will be included as part of the record at this point. Thank you very much.

[The information follows:]

PREPARED STATEMENT OF ROBERT G. LEWIS

The narrow frame of reference within which national economic policy changes are considered in most discussions these days often leads to policy proposals and results that are ludicrous.

The conventional frame of reference tends to restrict the range of choices that are given consideration to the manipulation of fiscal and monetary operations of the Federal government. Most of the argument these days centers on whether taxes should be raised or reduced; whether Federal spending should be increased or curtailed; whether interest rates and money supplies should be higher or lower. This constricts the scope for possible action to improve the economy to a minor fraction of the total economy. Even the unprecedentedly large numbers in the $300 billion range that are reflected in current Federal budgets represent, at most, only one-fifth to a quarter of the total potential volume of activity in the national economy. This is a tail that might cause the dog to wiggle some. But if we want to get at the serious faults that exist in our overall national economy, which we must do in order to restore economic health and prosperity and renewed progress, then we will have to turn our attention to the whole dog.

The embarassment that is caused by the conventional narrow view of what our choices are for economic action is exemplified by the recent performance of none other than the Chief Executive of the United States. Only a few short months ago, President Ford was demanding immediate action by the Congress to *increase Federal taxes.* Suddenly he reversed direction, and began laying on the lash to Congress with even greater fervor to institute a *Federal tax reduction.*

"WRONG WAY, CAPTAIN!"

This presents the spectacle of the captain of our team running the wrong way down the field. There is some argument, of course, over whether it was before, or since the reversal of direction on whether to *increase* or to *reduce* Federal taxes, that he was heading for the wrong goal-posts.

The Farmers Union considers that the present direction is the correct one. Our national president, Tony Dechant, pointed that way in the views which he presented to the "Pre-Summit White House Conference on the Economy" September 12-13, 1974, in Chicago. We are glad that the Captain of the U.S. team is now following at least this much of the play that was called on that occasion by the Farmers Union, and many other advisors. But Mr. Dechant's recommendations went substantially beyond this limited maneuver, which is thoroughly inadequate by itself alone for winning the ball game. The rest of what he advised is also relevant and valid today; the fundamental nature of our problems has not changed from what it was in September. I submit herewith a copy of Mr. Dechant's "Summit" statement for consideration by the Committee.

The shortcomings of the narrow range of plays that is considered permissable for trying to win the economic ball game is illustrated further by what the Administration is doing in the way of attempting to reduce Federal spending. One of the most conspicuous items upon which the President bore down in his budget-cutting efforts was food stamps for the poor. This would have cut down food consumption of the very element of the population which is least-well fed!

If reduced food consumption is truly an appropriate economic goal, and if government action to affect food consumption must be restricted to that which is directly within the domain of governmental fiscal policy, then why shouldn't first consideration be given to placing the burden upon those who are likely to be over-fed, instead of those who are already under-fed?

Most of the luxury consumption of food and drink in our economy is powerfully encouraged and partially financed by the Federal government, through the allowance of deductions from the taxable incomes of corporations and individuals of expenditures for "business entertainment". It is highly questionable, in my opinion, that this kind of tax expenditure makes a genuinely useful contribution to our economy. Yet it probably costs many times as much as the entire food stamp program. If it is truly necessary to cut food consumption somewhere in order to save money for the Federal government, then at least it should be considered whether to apply the cut to the high-priced meals and drinks that businessmen buy for each other, instead of starting at the other end of the scale of affluence.

The President's move to cut food stamp benefits for the most-needy Americans suggests that, even though he might have got going in the right direction on tax

policy at last, he was running *backwards* down the field! It is reassuring to us that Congress intervened and faced him around correctly on this issue.

"BOOM AND BUST" FARM POLICY

But the Administration is still running backwards and the wrong way on food policy, which has recently given us some of our worst scares, and is always one of the most basic economic concerns of mankind.

The Administration has taken the position that no change should be made in the farm price supports that are provided by the 1973 farm legislation. These are far below present costs of production. Price support loan levels are $1.37 per bu. for wheat, $1.10 for corn, 25 cents a pound for cotton, and nothing at all for soybeans. These unthinkably-low loan rates would be supplemented by payments to raise the farmers' returns on part of their production to "established prices" of $2.05 for wheat, $1.38 for corn, and 38 cents for cotton. (It is a case of mislabeling to describe these "established prices" as "target prices", as is commonly done, because they would relate only to varying fractions of each farmer's actual production.)

Secretary of Agriculture Earl Butz has characterized the programs that have been developed in the United States to stabilize farm prices and food supplies as "forty years of wandering through the wilderness", which, he declares thankfully, "has come to an end." It is pertinent to wonder whether the Moses who professes to have taken us to the Promised Land of "market-oriented" agricultural policies has really only got us back where we started, in depression and despair.

It is pertinent to wonder also whether others in our Society can expect such leadership to discard along with farm programs such other social and economic equipment as Social Security, the Wagner Labor Relations Act, Federal Deposit Insurance Corporation, Securities and Exchange Commission, TVA and REA, and others that have been devised during this forty-year-long march to give not only the United States but the entire world the longest stretch of prosperity in modern times.

PROPOSE PLAN FOR "PARITY AND ABUNDANCE"

The Farmers Union is disappointed in the legislation that has passed both houses of Congress and is now being considered by the Conference Committee. It would bridge only a little more than half the gap between the 1973 Act's price support loan levels and parity. We have proposed a long-range farm program that would provide a solid structure for a national food policy that would meet the nation's needs for a prosperous and dynamic farm economy, secure and abundant supplies of food at reasonable prices for American consumers, and abundant exportable supplies of farm commodities and food to earn the foreign exchange that is now and will continue to be essential to our economy and to our influence and power in the world.

In his testimony to the House Committee on Agriculture, Tony Dechant, national president of the Farmers Union outlined the specific details of this proposal, as follows:

The Farmers Union's proposals would result in stable farm prices at approximately 100 percent of parity, and would provide for ample safety reserves of storeable farm commodities to protect our consumers and export customers from shortages such as have been experienced under the Nixon-Butz "boom or bust, glut or famine" food policies of the past five years. We propose the following measures.

1. Provide for non-recourse price support loans to farmers at 90 percent of parity (as defined by law), to provde a floor under prices of grains, cotton, and soybeans. We believe the assurance to farmers of such a price support floor would encourage and make it possible for farmers to produce abundantly.

2. Farmers would be protected from the price-depressing effects of "surpluses" if production should exceed the quantities needed to meet current market requirements. Any such stocks would be stored, under the producer's control, as collateral for the nonrecourse price support loan. These stored stocks would thereby serve as a safety reserve to protect consumers, livestock producers, and the national interest against the risk of shortages. The price support loans to farmers should be extended year-by-year, if the producer wishes, and the government should absorb each prior year's storage and interest costs for the stored commodity so long as market prices have not risen to 100 percent of parity. If the producer does not wish to extend his price support loan, the government would

take title to the commodity without further recourse. No stocks owned by the Government should be permitted to be sold at less than 110 percent of parity.

3. At any time when supplies are short and market prices for the commodity rise to 110 percent of parity, the farmer would have to bear the cost of interest and storage charges. This will give the farmer an incentive to repay his loan and sell the commodity, thus assuring a smooth and automatic movement of stocks from the safety reserve into the market when they are needed.

4. Congress should establish, by law, the quantities of each commodity which it considers essential to be held as safety reserve stocks. Only when stocks of the respective commodities have reached those levels should the supply management measures provided by law be activated in order to avoid the production of unneeded supplies. The use of supply management measures in this way would make it possible to control the cost of maintaining a secure and dependable supply of each commodity at reasonable and stable prices.

5. Farmers should be permitted to store their commodities pledged as collateral for price support loans in any approved storage facility, on the farm, or in a cooperative or commercial warehouse.

6. To the extent it is deemed necessary for the Government to have supplies of commodities under its control for meeting overseas emergencies or other needs, the Secretary of Agriculture should be authorized to enter into option agreements with farmers to buy loan collateral stocks at 110 percent of parity.

7. With a safety reserve in storage of commodities which are important in international trade, such as wheat, feed grains, cotton, and soybeans, we envision that there would be no need for export licensing or controls.

8. Effective measures would be needed to protect the operations of this price and supply stabilizing program from the effects of price-depressing imports. We recommend that a new system of import regulation be estabilshed, under which a variable rate of duty would be imposed equal to the amount by which prices in the world market fall below 110 percent of parity. This method should be applied to all types of agricultural commodities for which regulation of imports is necessary.

9. We recommend a return to international cooperation to stabilize prices at fair levels, assure access to markets, and insure reliable supplies of farm commodities in international trade. We urge that the President be directed to begin at once to negotiate with other countries for the establishmen of an Inernational Grains Agreement providing for the following elements:

(*a*) minimum and maximum prices in world trade (the Farmers Union proposes a range of prices between 90 percent and 110 percent of parity);

(*b*) commitments to assure the supplies to importing countries, and to assure access to markets for exporting countries;

(*c*) rules on the disposal or stockpiling of surplus domestic production;

(*d*) limitations or prohibitions on the use of export subsidies;

(*e*) cooperation among participating countries to manage the supplies put into the world market;

(*f*) consultations between governments on the effects of national price support programs on world trade;

(*g*) reserves of food and fiber, under the control of national governments but subject to international review, to assure importing countries of the reliability of exporting countries to meet their supply commitments, and to provide for national and international emergencies.

We believe the government of the United States should adopt this plan for farm parity and food abundance, and then operate it so as to make full use of unlimited farm production at parity prices. There is no foreseeable end to the *need for food* in the world in this Century, and, therefore, no limit on the potential *demand for food*. The short-sighted policies of the present Administration, in driving down the prices of our exported farm commodities, have deprived our national balance of payments of several billions of dollars in shortened returns on our farm exports during the past few months alone. We cannot afford such wanton squandering of our economic interests in today's world. On the contrary, we should seek aggressively to expand our opportunities to make our food power count in the world economy, through vigorous use of the "Food for Peace" program for market development as well as emergency humanitarian aid, and by enlarging opportunities to exchange our abundant food for raw materials we must have and other goods and services through two-way trade with the hungry populations of the world. This view was more fully expressed in my statement presented at the Western Governor's Conference on Agriculture in Billings, Mont., on April 3, 1975, which I hereby submit for consideration by this committee.

FUNDAMENTAL INSTITUTIONAL REFORM NEEDED

The general policy approach that is exemplified by the Administration's position on farm legislation compounds the inadequacies of the more general view that governmental intervention in the economy should be constricted mainly to fiscal and monetary matters. The real problems with our economy are *structural*. The realistic action that needs to be taken is *fundamental institutional reform*, not mere tinkering with tax rates and interest rates. The reality of our situation is that enormous power is exercised over all of our lives, and the fate of our nation, and of the world, by unrepresentative and highly concentrated private institutions. It is a wild illusion to suppose that prices are made by the "unseen hand" of blind market forces, which can be directed in the public interest by the manipulation of fiscal and monetary policies of the government. The truth is that prices and other features of our economy are made, for the most part, by the deliberate decisions of small numbers of men. It is the obligation of the government, as the agent of all the people, to intervene selectively and purposefully to affect these private decisions so as to produce results that will meet the needs and respond to the interests of the people.

The need for *selective* measures, rather than such generalized changes in the overall economic situation as result from manipulation of tax and interest rates, is illustrated by the differences in recent changes in the various elements of farmers' costs of production.

The overall production cost index is up 10½ percent from a year ago. Wage rates lagged behind the average, at 9 percent, and farm real estate taxes, reflecting the cost of local government, increased only 4 percent. But interest costs nearly doubled the average increase, up 18 percent.

The cost of feeds which farmers buy from other farmers, was down 3 percent, and of feeder livestock was up 35½ percent from severely-depressed levels of a year ago. These are the only items that have shown a back-and-forth movement. All others have moved in only one direction—higher.

The cost of farm machinery was up 25 percent, motor supplies were up 22 percent, and building and fencing materials were up 20 percent. The cost of family living items was up 13 percent.

The appropriate measures for dealing with these problems, and others like them throughout the economy, need to be discovered, or invented. One useful model is the Tennessee Valley Authority, which has rationalized electric power supply on a non-profit basis for a large section of the United States and provided a "yardstick" for private industry in adjacent areas. This model should be considered for energy, and for rail transportation, and perhaps other basic industries. A new and truly effective approach to anti-monopoly action is strongly indicated. Tax *reform*, both to eradicate unwarranted selective advantages, and to apply increased general progressivity, and perhaps selective distincentives to undesirable or low-priority economic activities, is clearly indicated.

There is a clear need for a concerted new program of public employment, designed to provide a job for every American who wants to work. There is no excuse for the waste of resources represented by long-term unemployment for periods beyond the minimum required for movement from one job to another. Two major national needs for large-scale labor-intensive economic activity are for railway repair and improvement, and timber stand improvement on public lands. In both cases, the value of such work would exceed the cost. More than 10 percent of our labor force is now out of work. These two and other suitable capital improvement projects should be instituted at once.

We believe that it is within the proper purview of this Committee to examine the specific performance of the various elements of the national economy, and to review and propose specific institutional reforms that promise to improve that performance, and thereby to carry out the purposes of the Employment Act of 1946 by promoting both *full employment* and an optimum level of production of those goods and services that are most needed by the American people.

STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY, NATIONAL FARMERS UNION, ENTITLED "THE FUTURE OF AGRICULTURE IN THE WESTERN UNITED STATES" BEFORE THE WESTERN GOVERNORS' CONFERENCE ON AGRICULTURE, BILLINGS, MONT., APRIL 3, 1975

What is the future of agriculture in the Western United States?

The answer to this question, which was posed for a panel at the conference yesterday afternoon, is not yet known. In large part the answer will be whatever we choose to make it be. There are few aspects of our future over which we, as American citizens, have as much freedom of choice as we do over the scope and significance of our agriculture. In a world in which American power is in sharp decline, as other countries gain both in relative strength and in readiness to challenge American influence and power, our food power remains pre-eminent.

It is a cliche to say that our American food power is "God-given". But if it should come to pass that our food power is taken away from us, most likely it will be due to our own mistakes. What God has given us, in our great expanse of fertile soil, our favorable climate, abundant water, and farming ability, does not seem likely to be withdrawn. Yet mistaken public policies might undermine and check-mate our American food power just at this time when its potential value to our national interest is becoming most critical.

The Western States represented in this Conference provide a large measure of our country's total food power. Because of the exceptional importance of agriculture in most of these states' economies, national food policy is vitally important to them. It is appropriate, therefore, that the Western States should assume a large responsibility for national leadership in shaping our national food policy. That is what is signified by the scheduling and design of this Conference of Governors.

We are here to talk about what we should choose to do with our food power. First, we need to know the real measure of what we are talking about. Next, we need to take the measure of the world situation within which our future must be made. Then we can decide intelligently what we will choose to do to make the best of our opportunities.

U.S. IS "NO. 1" IN FOOD POWER

The United States is a big producer of farm commodities, and the biggest producer of some. But what is more important is the fact that the U.S. leads all countries, and in some cases all other countries taken together, in the quantity of farm products which exceed the needs of its own people each year and are available for export to other countries.

I will confine my statistics to cereal grains and oilseeds, for the sake of simplicity and brevity. This will tell the story with considerable accuracy because these are the most critical to international trade of all the farm commodities, and they do represent the source of about three-fourths of the world's total human food supply, either as consumed directly by humans, or as the raw materials from which most meat and milk and poultry and eggs are made.

The table below shows for 1973, the latest year for which complete figures are available, the total world production of these commodities, the production of the United States, the total world trade in each, and the U.S. share in world trade.

Commodity	Production[1]			Trade[1]		
	World	United States	United States as percent of world	World	U.S. exports	United States as percent of world
Wheat	367.4	46.6	13.0	[2] 62.2	31.0	50
Rice	309.8	4.2	1.4	[2] 7.4	1.8	24
Feed grains	602.5	186.7	31.0	[2] 67.7	43.9	65
Soybeans	57.0	42.7	75.0	17.5	14.8	85
Oil content of all oilseeds	44.9	7.0	16.0	13.9	3.6	26
Protein meal content of all oilseeds[3]	66.2	11.5	17.0	31.0	17.2	55

[1] Millions of metric tons.
[2] Excluding intra-EC-9.
[3] Equivalent of soybean meal (44 percent protein).

Source: Foreign agriculture circular: "Grains," Sept. 24, 1974, U.S. Department of Agriculture.

Most of the food produced in the world is consumed right in the countries where it is produced. But as the table shows, the U.S.A. is indeed "Number One" as *supplier of food to other countries.*

Our pre-eminence in the world as the greatest food exporter gives us a great strategic advantage. We must assume that the human population's needs for food will continue to grow. It seems certain, unless there is widespread war or famine or unprecedented pestilence, that the human population will double before population growth can be stabilized by the year 2000 or later.

Some of the additional food that will be needed can be gained by improving yields on land now being cropped. But this will not suffice both to feed the additional population, and to raise the quality of diet for hundreds of millions above levels that are now too low to maintain health and the ability to work efficiently. More land must be harvested during the years ahead in order to provide ample food for the world's increasing population.

CAN U.S. STAY "NO. 1"?

Whatever country possesses the ability to increase its agricultural production, so as to be able to export food to satisfy the hunger of other countries, will surely enjoy a continuously-advancing strategic advantage in the world's economy and politics. Can the U.S.A. remain the "No. 1" food exporter?

The U.S. has much more unused cropland than any other industrialized country. Our harvested area in the early 1970's had shrunk to the smallest acreage in this Century, to only 280 million acres, from the peak of 360 million acres in the 1930's.

The 80 million acres of land withdrawn from crop production, plus two or three times as much more, could readily be planted and harvested. It would yield somewhat less than the cropland now being harvested, and it would be more costly to farm.

Beyond this expanded total of 520 million acres still another 200 million acres or so of pasture land and woods could be cropped, but at still greater cost and risk.

HUGE POTENTIAL NEW ACREAGE OUTSIDE U.S.

The world's total potentially arable land is about 7,880 million acres, of which only about two-fifths is now being cultivated. Most of the world's now uncultivated cropland other than that in the U.S. is in Africa and South America. It seems reasonable to say that most of the additional food exports that will be needed in the future will have to be produced, therefore, in the U.S., Africa, or South America.

Prices of farm commodities in world trade will need to be higher than they were before 1972 in order to make it economically feasible to increase the harvested area in the U.S., and they will also need to be more stable and more secure. Otherwise farmers cannot afford to risk the investments in additional machines, land clearing, soil improvements, and so on that are required to make the additional land productive.

But even greater investments, and greater risks, will be required to make additional lands in Africa and South America produce farm crops for the export market. Much of this potential new cropland is located in thinly-populated districts. Bringing this land into production will require not only that the trees and brush be cleared and the land "broken to the plow". It will also be necessary for qualified farmers to be recruited and trained, roads and bridges built, fences and barns constructed, machinery and repair services procured, and even for new seed and animal varieties to be bred, and new disease and pest control capability developed. New research stations will need to be constructed, and new scientific workers trained to staff them. Farming in these new lands is at a stage 100 years or more behind the modern scientific farming of the United States, and it will take enormous expenditures and up to a generation of time at the very least for them to catch up.

This, I think, fairly measures the present scope and future potential of our "food power" in the United States. We are "No. 1" today, and we are far ahead of all potential competitors in the race to remain "No. 1" for at least the remainder of this Century.

WILL U.S. CHOOSE TO STAY AHEAD?

Our present world lead in food power does not insure that we will realize our potential and stay out in front. The United States will need to make a conscious political choice to sustain our lead in food power, or we risk losing it. And there is a powerful political movement now being raised, from two divergent but inadvertently allied sources, against our making the positive policy choices that will be needed to sustain our world lead in food power.

While this movement seems to be of one mind on many things, it is fair to recognize that it is of two hearts. One faction is misquided humanitarianism; it might more descriptively be called "wrong-headed good-heartedness". The other is short-sighted opportunism, it is not so much vicious as self-centered rather than patriotic, and small-minded rather than visionary. It is backward and inward-looking, rather than progressive.

"The United States cannot feed the world" is the present-day rallying cry of both factions in this movement against sustaining America's lead in food power in the world arena. That slogan is a truism that imparts a false meaning. It is no less true that "the Arabs cannot oil the world." Arabia's petroleum is only a fraction of the world's total energy resources, but its critical significance to world politics and economics is obvious.

The critical significance of our present and potential exportable margin of food supply is even more overwhelming, if we but knew it. The knowledge is blocked in some by their lack of faith that we would employ such grave power wisely. It is blocked in others by their short-sighted avarice, or by simple inability to reach for the national grandeur and responsibility that knowing possession and employment of such great power would impart.

The misguided humanitarians are easy marks for the opportunists with whom they are unconsciously allied. If indeed "the United States cannot feed the world," then the reflexive response is that the hungry must feed themselves. So it has been that the humanitarian agencies sat by without protest while the Nixon Administration forced America's farm production plant down to its smallest scale in this Century with depression-era farm prices, while spending all-time record amounts to pay farmers for withdrawing cropland from production and at the same time cutting the volume of food aid shipments to the smallest in 21 years. The world food shortage of today was made in Washington, and misguided humanitarians gave consent by their silence to the deed.

The two-hearted movement against sustaining America's lead in food power is united in favoring subsidies and technical assistance by the U.S., international agencies, and other countries, and the promotion of investments to expand food production in other countries. Help to the hungry countries to increase their food production has a useful place in a comprehensive food policy—but as a one-shot *substitute* for the comprehensive policy that is needed, it is false to the intentions of the humanitarians, it betrays the national interests of the United States, and it serves only the short-run purposes of the opportunists.

A "CART-BEFORE-THE-HORSE" SOLUTION

The simple-minded good-hearted reflex response to hunger is *to strive to increase the supply of food.* But this puts the cart before the horse. I do not know of anyone on earth who has money to spend for food who is hungry. The immediate cause of hunger, wherever on earth it occurs, is the lack of money in the hands of hungry men and women with which to buy the food they need for themselves and their children. The only realistic cure for hunger is jobs, earnings, and purchasing power. Most of the time during the past quarter-century, there have been huge unmarketable surpluses of food in the world, yet the number of hungry has steadily increased. We have been looking at the problem upside-down, creating the illusion that the problem is *supply,* when it's really the *demand* end of the familiar equation that requires our attention and reform.

This is illustrated by our own experience here in the United States. In 1961, our reserve stocks of farm commodities were the largest ever possessed by any country in the history of the world. Yet at that very time, we probably had more malnourished American citizens than ever before in our history! How silly it would have been for us to have tried to attack this hunger by striving to increase food production!

Our experience also teaches that food relief cannot be counted on to satisfy more than a tiny fraction of the malnutrition in the world. The United States is the world's richest country, with one of the strongest, most competent, and most humane governments on earth. But it took even such a government as ours until 1961 to begin making a concerted attack on hunger among our own citizens by means of direct action to provide food aid. Even today, the first place the Ford

Administration looked when it sought to reduce government spending was to cut back funds for the Food Stamp program.

The message to the humane should be clear: It is not realistic to suppose that the governments of the poor countries, with much less capability to govern, and much less commitment to social justice, would or even could use "surplus" food effectively to feed hungry people by means of direct subsidization of food for the poor.

STRESS ON "SUPPLY" IS SELF-DEFEATING

The futility of simple-minded concentration upon increasing food supplies as the way to feed the hungry is compounded by two other perverse realities:

First, most of the land suitable to be put into new or expanded food production is located in thinly-populated areas, or is held in large blocks, or both. The oil exporting countries are being pressured from all sides to invest their surplus funds in agricultural development. Many multinational firms are looking for such investment opportunities, often with substantial subsidy by importing country governments such as Japan. Large landowners have the best opportunity to secure capital for expansion of production. In all cases, the odds favor the creation of big-scale farming enterprises, which prefer mechanization to labor-intensive methods. This is the kind of farming enterprises that the U.S. AID program has done most to promote and encourage during the past 10 years. Big-scale farming minimizes the creation of new jobs for unskilled laborers, and may indeed displace millions of them altogether, as happened in the Southern United States when cotton farming was mechanized in the 1950's and 1960's. The result of "increasing the supply of food" by this approach often may be to *increase the numbers* and *worsen the hunger* of the poor.

Second, most of the farmers in the world *already* "know how" to farm better and more productively than they can afford.

The World Bank and others have come lately to recognize the pitfalls of large-scale displacement of labor out of farming by capital and technology, and are trying to shift their help to small farmers. They recognize that increased food production on family farms will at least provide better diets for the farmers and their families. But even the small machines, hand tools, and modern seeds, fertilizers, and chemicals that are needed to increase small farm productivity—*all have to be bought and paid for with money!*

All the petrodollars in Arabia, all the investments the World Bank could make, even if they didn't have to be paid back, would barely scratch the surface of outfitting the billion or so of small farmers in the world who themselves need better diets. As every farmer knows, it is not possible to farm very long unless there are paying customers to buy the produce so that the farmers can pay their costs of production. "Subsistence farmers" farm at a "subsistence" level because they and their children are their only customers—they pay themselves "in kind" for their own labor, and their hungry countrymen stay hungry because they cannot pay enough for food to enable the subsistence farmers to pay for any of the other "inputs" like new tools and chemicals and seeds that they would need in order to increase their output.

The single-minded concentration upon *increasing food supply* is even worse than putting the cart before the horse. It's like sticking the caboose out in front of the train, and then hitching on all the boxcars and coaches and Pullmans—and leaving out the engine altogether!

If a train is going to get any place, it is necessary to start out from the very first with *an adequate engine.* The engine that's essential for getting the hungry fed is purchasing power for food—money for the poor, to translate their *need for food* into *effective demand.* There are ways that this can be done, as I will describe later. The horse can be hitched where he belongs, out in front of the cart. An engine of phenomenal power is waiting to be hitched in front of the train to carry mankind to the destination that all good-hearted as well as the selfish opportunists too could applaud—enough to eat for everyone! But first I will examine a little further the preposterous contraption that now comprises our jerry-built food policy, and where it's likely to take us if we stay on board.

"SURPLUSES" ARE TRUE GOAL

It will take us straight back to price-depressing farm surpluses, that's where. Although a small fraction of the world's poor people might get some food relief out of agricultural surpluses, the real result will be self-defeating of its own intended purpose. Food surpluses and depressed farm prices will slow-down the expansion of food production, and in the end may again force actual curtailment of farming operations, as happened during the past two decades of chronic surpluses, chronically depressed farm prices, and chronically-worsening malnutrition among hundreds of millions of human beings. To continue the world pattern of spreading poverty and want in the midst of chronic food surpluses and agricultural depression would court a global disaster.

Agricultural surpluses and depressed farm prices are the real goal that is being deliberately sought by some, despite the long-term dangers, as they maneuver to promote food policy measures that hitch the cart in front of the horse. Cheap raw materials suit the short-run interest of processors and traders. Cheap food is a convenient short-run escape hatch for governments having difficulty in keeping their constituents' cost-of-living within bounds. When farm prices are put down and kept down, cheap food off-sets chronic increases in the wage rates, salaries, profits, fees, and commissions received by other sectors. During most of the past 25 years, declining farm prices have masked steady increases in other components of the cost-of-living index in the United States. Today, after a few brief months during which farm prices rose toward parity, their renewed sharp declines are again the main downward force that is tempering double-digit inflation.

WHY PICK ON FARMERS?

The aim for "cheap food" in the domestic economy so as to allow faster escalation of other elements in the cost of living is the hidden economic motive behind the urge to foster competition against U.S. farmers and encourage world agricultural surpluses.

The people around the world who are hungry are also often sick. Yet no one suggests that the U.S. should subsidize and promote new drug companies to make the poor countries self-sufficient in medicines, much less help them compete in export markets.

To get right back to food, the poor counties' farmers need fertilizer to increase their food production. Yet official U.S. policy frowns on moves those countries make to nationalize multinational fertilizer manufacturing facilities. And the fertilizer industry, backed by the U.S. Chamber of Commerce, forthrightly demands that no U.S. subsidies or encouragement be given to establishing competing fertilizer manufacture in the developing countries. Fertilizer should be produced and sold on a strict basis of comparative advantage, with no preference to home-made products over imports, they insist.

U.S. AGRICULTURAL LEAD UNDERMINED

The curious combine of misguided humanitarians and short-sighted-to-cynical opportunists has already traveled far down the road toward undermining the pre-eminent food power of the United States.

Nine years ago, the "Food for Peace Act af 1966"—which President Johnson sought to re-label as the "War on Hunger"—reversed the program's direction from developing markets for U.S. farm commodities and made its foremost objective the promotion of national self-sufficiency in food production in the poor countries.

William Gaud, then Administrator of the Agency for International Development, boasted in the hey-day of the "Green Revolution" in the late 1960's that a number of developing countries, notably Pakistan, would soon become "self-sufficient" and enter the world market as grain exporters—ignoring the reality that tens of millions of Pakistanis were still and would continue to be severely malnourished. Today over half of what was then Pakistan is the world's worst area of hunger.

The Food and Agriculture Organization of the United Nations offered a "World Indicative Plan" for agriculture which called on the United States and other advanced countries to cut-back on their grain production to make room in the world market for exports from developing countries.

The World Food Conference in Rome last November, with the blessings of the Ford Administration's delegates, made promotion of increased food production in the developing countries its top goal. Ambassador Edwin Martin, who was in charge of promoting the Administration's line for the Rome conference in a "preparatory" meeting with non-governmental organizations, had bluntly shut off consideration of measures that could be taken to increase employment and buying power so that the hungry could buy more food from American farmers. At the World Food Conference itself, the U.S. issued a goading challenge to the oil exporting countries to invest their new-found wealth to develop new farming enterprises to compete with American farmers.

And just a month ago, on March 1, 1975, Secretary of State Kissinger pledged U.S. financial help to promote increased farm production in Latin America—*for export!* Said Kissinger:

"Most Latin American countries are net food importers. We believe that with a concerted new effort. . . . Latin American can become a major food exporter."

ENDANGERS U.S. FARMERS

So long as the supply cart remains hitched in front of the demand horse, traveling down this road is full of peril for American farmers, and for the national interests of the United States as well.

The Arabs are not likely to invest much of their oil profits in farming under the terms of a "boom and bust" agricultural commodity market. They will find ways to contract for guaranteed markets, at guaranteed profitable prices, to guarantee returns on their investments. It is the American and Canadian and Australian farmers who will be left with the "surplus" and economic ruination when the world market again becomes over-supplied.

Nor are the Japanese, who are already investing hundreds of millions of dollars a year in new farming enterprises in Brazil and other countries, at all likely to be planning to take their chances in the "boom and bust" world farm economy idealized by Secretary of Agriculture Earl Butz. The new overseas farms of the Japanese will be protected, as are those in their own islands while they encroach upon the Japanese home market that has become so vitally important to American farmers.

The farm policy blunders of the Nixon-Ford Administrations have gravely damaged the prospects of American farmers in the world market. The preferential treatment of the Russians at the expense of our regular customers in the 1972 wheat sale; the export embargo on soybeans and some 40 other commodities in 1973; the politicized and capricious export controls on wheat, corn, and other commodities in 1974, have drastically undermined confidence in the United States as food supplier among customers who we cannot afford to alienate nor to lose.

THREAT TO U.S. ECONOMIC POSITION

When I say "we", I do not mean only that American farmers cannot afford to lose our agricultural export markets. I mean all of us—all the people of the United States. Agriculture is our country's strong suit in the world economy, and it is a world economy that is swiftly turning to our disadvantage.

Political colonialism came to an end after World War II. Now the economic consequences of the end of colonialism are beginning to materialize. The most dramatic illustration is the action that has been taken by 13 oil exporting countries, which only a few years ago were generally regarded as weak, poor, ignorant, and incompetent. The industrialized countries have been pumping out and importing their oil at prices that were cheap even after allowing for huge profits to the international oil companies. But the oil exporting countries have put an end to that, I think forever. They have nationalized their oil reserves, and they've raised their prices. As the Shah of Iran has said, the oil will be all gone in 25 to 50 years, and while it lasts, he is determined to get as big a stake in the world economy as he possibly can for his country. Much as it hurts us, and hurts even more the other industrialized countries, I don't think we could fairly expect much else, nor blame the leaders of those countries for what they are doing.

Oil is only the first and most dramatic. Exporters of other scarce raw materials are already, or soon will be, doing much the same. In the years ahead, we can be sure that we will encounter hard bargaining by suppliers of all kinds of raw materials that we can't do without.

The hard bargaining is not likely to stop with raw materials. What the developing countries have in the greatest abundance of all is *cheap labor*. There are literally hundreds of millions of people in Asia and South America and Africa who are unemployed. We in the United States managed to keep unemployment down to 3 or 4 percent throughout most of the 1950's and 1960's. Now we are justly distressed with unemployment up to around 8 percent. But in many of these poor countries, actual *unemployment* is around 20 to 30 percent, as bad as the worst we experienced in the depression of the 1930's. And more than half of the people who do "work" have jobs that aren't worthy of the name, and they earn only a few cents a day.

SECOND WORLD "ECONOMIC SHOCK" COMING

The enormous need for employment in the developing countries, and the enormous political pressure upon all of their governments to create jobs and to find markets for the products of their labor, set the stage for a second worldwide economic shock which I believe will be far more profound than the quadrupling of prices by the oil exporting countries. We have been put on notice by some of the leaders of these countries themselves.

"Why should we sell oil and iron ore and bauxite to you," they say, "so that you can smelt steel and aluminum and make plastics in your mills, and then make automobiles and refrigerators and washing machines to sell back to us at high prices?

"We think it would be better for us to invest our oil profits to build our own refineries and smelters and factories in countries that have a lot of unemployed workers, and then you can buy our energy from us in the form of manufactured products!"

I think this paraphrased quotation from Sheik Yamani, Minister of Petroleum of Saudi Arabia, is a thumbnail sketch of the future world economy.

Saudi Arabia has the world's largest reserve of petroleum. Twelve others in the "union" of Oil Exporting Countries have most of the rest of the exportable supply. Other underdeveloped countries possess most of the world's reserves of bauxite. Others have vast supplies of iron ore, and of other minerals that we cannot do without. Still others have hundreds of millions of poor workers who need jobs or better jobs. All of these countries, despite their differences and conflicts, are learning to work effectively together, first on political issues in the United Nations, and increasingly of late on economic problems. I do not doubt that they will soon begin to rearrange the world's economic furniture so that it will be completely unrecognizable to anyone who remains stuck in the outdated present.

WORLD POWER SHIFT REDUCING HUNGER

As I see it, this is a realistic view of the world situation within which we Americans will have to make our future. What shall we do about it?

First, a word for the humanitarians:

The monumental changes that are being made in the world's economic and political structure are moving swiftly toward the very result that good-hearted people most profess to want—*enough to eat for everyone.*

Increased oil revenues alone are already creating jobs and increasing buying power for food. The countries stretching from Morocco on the Atlantic to Iran beyond the Caspian Sea tripled their purchases of U.S. farm commodities in 1974 over 1973—to 13 times as much as the average of the five years before. This represents more headway against hunger than was ever accomplished through food aid at its peak.

And the process is barely beginning; only a fraction of the exporters' oil profits are as yet being invested. As the development of new industries, the construction of new roads and railways, factories, houses, sewer and water systems, and all the rest gets underway, and as still more jobs are opened up when the construction is finished, tens of millions who have been poor and hungry will become breadwinners. The other foreseeable measures to increase the earning-power of the poor countries from their resources and their labor will add to this beginning, creating a veritable explosion of purchasing power for food within the decades ahead of us.

Yet there is much work for the humanitarians to do. The present rules of the world economy are rigged against the hungry—and against the farmers, whose best potential customers are the world's poor and unemployed. The highest trade barriers on earth are those raised by the United States and other industrialized countries against the kinds of goods that poor and hungry workers could make and sell to earn their bread. These trade barriers condemn tens of millions to malnutrition. There is where the truly effective attack on hunger should be aimed! And equally as important, at providing for help to those of our own industries and workers that will be squeezed in the economic earthquakes that are sure to come in the years ahead.

There will be continuing needs for emergency food aid, and for special assistance to vulnerable individuals in the developing countries before their own welfare and social security systems can be established. The best way to get that done is through a farm policy for the United States that is designed for an expanding role for American agriculture in the new world economy.

As for help to developing countries to expand their own agricultural production, that will largely take care of itself once the engine of rising demand is cranked up and running down the track. Prospering and expanding urban sectors in those countries will make it possible for them to follow the Japanese pattern in their agricultural development. In Japan, relatively high domestic food prices, supported a labor-intensive family-farming system which retained labor on the farms until the non-farm industries were ready to absorb it at life-sustaining wages. This provided a constructive home environment as a base for good nutrition, health care, and schooling of the new generation. Without two things from America—markets for their manufactured goods, and imported food—the double-barreled success of the Japanese both in their rural and urban economies would have been impossible. Now, the poor countries are uniting to demand the same conditions from the rich countries as a group.

NEW U.S. FOOD POLICY NEEDED

In such a future world as this lies a giant opportunity for the United States that dwarfs the little goals of the short-run opportunists.

Why should we cripple our farmers with chronically-depressed prices and incomes, relieved only intermittently once in a decade or so when this mean course leads to unnecessary worldwide shortage?

Why should we shrink our agricultural production plant to its smallest dimensions in the Century, while reversing the use of our exuberant abundance for developing expanded markets?

Why should we default from our pre-eminent food power in the world, while promoting the creation of preferred competitors in the export markets upon which our whole economy and national financial balance depends?

Why should we block the legitimate aspirations of the developing countries for access to our markets for the products of their poor and hungry workers?

Surely breaking and keeping farm prices below the cost of production so as to get a transient improvement in the cost-of-living index, to cover-up mismanagement of other sectors in the economy, is not worth such a price.

SHOULD STAND UP FOR U.S. INTERESTS

It is time for Americans to acknowledge the pre-eminence of our food power in the world, proudly and confidently, and to begin to use it boldly and creatively to advance the interests of our country.

As other countries concert and muster their bargaining power to demand higher prices for what they sell that we must have, so must we marshall our bargaining power to demand fully remunerative prices for the food which they must have and we can sell.

We must restore and redeem the responsible leadership of the United States for international cooperation and fair play in ordering the economy of the world. It was abandonment of that leadership by the Nixon Administration, by violating and wrecking the International Grains Agreement in 1969, which started the trend toward one-sided economic buccaneering that culminated in the oil exporters' cartel. We must once again employ our economic power along with our moral influence to persuade the countries of the world to cooperate together through international commodity agreements. These should give fair representation to the interests and needs of both exporting countries and importing countries.

We should revitalize and encourage our agriculture by providing effective and reliable support programs that will assure prices at full parity.

We should expand the Food for Peace program boldly and imaginatively so as to insure full use of all that our farmers can produce at full parity prices.

We should insure that all of our own who are hungry are fed, and then share generously with other prosperous countries in providing food aid in emergencies and for women, children, and the handicapped who cannot work.

To the full extent that our food supplies may temporarily exceed our needs for domestic and export markets and realistic reserves, we should use concessional sales of food under long-term food aid and trade expansion agreements with developing countries, with the direct objective of fostering enduring patterns of two-way trade.

Wherever in the world there is a present or prospective market for our food, we should go after it. with energy and imagination. In the future now beginning, we are sure to need it before long.

Why should we coerce India, for example, to strive to be self-sufficient in food production, when we did the opposite in Japan, to our everlasting gain?

From zero in 1945, our agricultural exports to Japan have climbed to the multi-billion-dollar level—a supreme example of the practical benefits of the "Food for Peace" program that have accompanied its humanitarian goals. We began with donations to the needy; we advanced through concessional sales on easy terms, and in the process we "taught" the Japanese consumers to like and to buy American-styled foods and farm products. At the same time, for military and political as well as economic reasons, we fostered two-way trade, laying the basis for what has become one of our most important international relationships.

No, the United States "cannot feed the world". But we can, and we must, go after the biggest piece of the business that we can get.

Our country is both great and good. We deserve a leading role in the world. Despite our shortcomings and mistakes and imperfections, we have much to contribute to the creation of a world society in which our own and all other men's children can live in peace, dignity, and decency.

Food power is our greatest gift for the world, and our strongest claim to national power and influence in the world.

We must not sell our farmers short in our own economy. We must not sell our agriculture down the river in the new world economy now taking form.

Views of Tony T. Dechant, National President, National Farmers Union, Presented to the Pre-Summit White House Conference on the Economy, Chicago, Ill., September 12 and 13, 1974

1. Main Causes of Inflation

It is unfortunate that the word "inflation" is used to identify the economic problem which is causing today's public concern. "High prices" is a more accurate name for it. General use of the term "inflation" leads many to misunderstand the true nature of the phenomenon, and thereby to accept wrong and fruitless approaches to solving the problem. This confusion is particularly serious among laymen, including many who bear important responsibilities for dealing with the problem. But some professionals also seem either unclear about the distinction, or to be making rhetorical use of the inaccurate term "inflation" as a way to so define the problem that it will seem to justify courses of public policy and action which they favor or to head off others which they oppose.

The general understanding of the term "inflation" is that "too much money is chasing too few goods", so that prices of the goods are caused to rise. But this is not the cause of today's problems of high prices. The actual situation in the economy generally is the reverse of classic "inflation." Most industries are operating at far less than full capacity, and unemployment is higher in the United States than in most industrialized countries, higher than in most periods since the 1930's, and it is rising. The supply of most goods and services, coupled with the unused capability to produce, is greater than there is purchasing power to absorb, leading to cutbacks in employment. Demand is actually *depressed*, rather than *inflated*, and this depression of the economy is adding to the people's distress and suffering.

"High Prices" Not Caused by "Inflation"

It is an appropriate remedy for "inflation" to shorten the supply of money that is available for spending by restraining both public and private borrowing, and by raising taxes. But this medicine only worsens the overall sickness of the economy when it is applied in an effort to cure high prices that originate from either of the two causes that do account for today's major problems.

One of these causes is *power pricing*. It was political, not economic, forces that caused the price of petroleum to triple or more in the space of a few months. Specifically, it was the political decision of a dozen governments which control the supply of exportable oil. Similar price-raising mechanisms are working with varying results to raise prices of other raw materials, including bauxite, copper, iron ore, wood pulp, and phosphoric rock. Political, diplomatic, or military pressures might reverse or modify such *power pricing* decisions. But fiscal and monetary measures such as high interest rates and curtailed government spending in the U.S.A. aren't likely to make much difference.

The situation is basically the same in many large manufacturing industries. General Motors Corporation recently announced increases of around $500 in the price of cars, lay-offs of employees, and reduction in auto production, almost simultaneously. It was the decision of the corporation's board of directors, not the escalating bids of too many auto buyers for fewer cars than could be made, that caused prices to go up.

Power pricing prevails in a large part of our economy. This accounts for the fact that prices could increase by 12 percent during the past year, enabling corporate profits to increase in the face of actual reductions in industrial production and the gross national product. Depressing the buying power of the public will intensify public suffering and distress, but it won't have much influence upon the *power pricing* decisions of corporation managers.

Essentially the same is true of the collective bargaining decisions concluded between these same corporation managers and the labor unions. Wage rates and fringe benefits do not decline as the "supply of labor" increases, as it is marked by rising unemployment. Labor income may go down as work-weeks are shortened and unemployment compensation substitutes for wages for workers who are laid-off. But there is no reduction in manufacturers' labor costs that can be—much less would be—passed on to consumers in price reductions.

SHORTAGES ANOTHER CAUSE OF "HIGH PRICES"

The second main cause of today's price increases is *shortages of basic raw materials*, including foodstuffs and other agricultural commodities.

There are finite limits to the supply of non-renewable resources like metals and fossil fuels. Supplies of renewable resources like agricultural commodities, forestry products, and seafood are limited at any specific time by the capability to exploit the finitely-limited sun energy, soil, water, and mineral fertilizer resources of the earth. But none of the present-day shortages arise from imminent exhaustion of resources. Instead, we have shortages today because the world economy has failed to grow enough to keep ahead of rising demand.

Farmers plant and harvest less than one-third of the world's potential cropland each year. Harvested cropland in the United dropped to 280 million acres during the Nixon Administration, the lowest since before the turn of the Century 74 years ago. This is 80 million acres below the peak, reached around 1930.

The potential for increasing world food production is enormous. But the *need for food* has not been reflected fully in the market as *effective demand for food*, so that it has not been able to influence the world's food market economy to expand sufficiently to accommodate the sudden new surges of demand.

This failure of the world economy is fundamentally different from ordinary economic phenomena. Indeed, it arises primarily from the fact that a large part of the human population has been effectively excluded from the world's trade and money economy. The reasons for this exclusion are military, political, and cultural. Much of the Communist bloc has been all-but-isolated, by mutual consent, from the non-Communist world economy. Much of the economically deprived population of the world is culturally unadapted or indisposed to participate in the world economy.

HUNGRY ARE BARRED FROM MARKET

But the isolation of the poor countries is not at all one-sided. The abundant labor that comprises their major comparative economic advantage is almost entirely barred from competing in the world economy by the barriers against imports of labor-intensive goods into the markets of rich countries. Import duties raised against such goods are the highest barriers to trade that exist, mounting as high as 300 percent and more of the value added by labor. The characteristically-depressed prices for agricultural commodities and other raw material exports of the poor countries likewise have tended to suppress the growth in demand among their large part of the world's population.

But the economic isolation both of the Communist bloc and the poor countries is breaking down. The "Russian wheat deal" is one illustration. Whether it will prove to have been only an opportunistic raid on Western resources, or to reflect a commitment to long-term economic interdependence and total demand among the industrialized non-Communist countries. But its effects have gone beyond that. Prosperity in North America and Japan and Western Europe has drawn peripheral poulations in Asia and Africa into the world economy with not-well-foreseen results, particularly in terms of demand for foodstuffs. The *power pricing* feats of the oil exporting countries, which have accomplished a massive change in the pattern of the distribution of income in the world, have already further enlarged world market demand for food in their zones of political and economic influence. These new sources of demand for food-stuffs are part of the cause of sudden shortening of world food supplies.

U.S. HAS CUT FOOD PRODUCTION

Another factor has been the massive shift in U.S. food and agricultural policy during the past half-dozen years. The volume of food provided as "Food for Peace" shipments has been drastically reduced, and expenditures for paying farmers to cut food production have been sharply increased. The result was double-barrelled. The vulnerability of poor countries' populations to sudden food shortages was increased, while reserves available in the United States for meeting emergency needs were depleted. When bad weather and crop failures occurred, as surely was foreseen and should have been provided for, the world was caught in a desperate food shortage which is growing increasingly acute.

For the most part, the so-called "high prices" for agricultural commodities that have been engendered by the world shortages are the *solution*, not the *problem*. (This will be spelled out in more detail in paragraph numbered 3 below.) The principal *problems* are the dislocations and disruptions in the food and agricultural economy that have been caused by violent price and supply instability. These have caused serious waste and losses, particularly in the livestock, dairy, and poultry industries, and they have made the shortages worse and interfere with prospects for overcoming them. High interest rates and "tight money," the classical cure for "inflation," likewise interferes with correction of food shortages rather than helping it.

2. MAIN CONSEQUENCES OF INFLATION ON AGRICULTURE AND FARMING

The primary problems of farmers in the present situation are (1) uncertainty that returns on farm commodities will be sufficient to reimburse farmers for their swiftly rising production expenses, much less provide a reward for risk and management and family labor; and (2) unreliability or lack of supplies of production requisites.

The index of farmers' production costs has increased by 15 percent during the past 12 months. During the same period the index of prices received by farmers has dropped by 13 percent. The purchasing power of farm commodities (parity ratio), which is the true measure of the farmers' ability to pay their bills and support their families, has plunged 24 percent in the years' time. Farm prices in August 1974 averaged only 78 percent of parity.

But the real seriousness of this situation is masked by the accident of the drought which seared the corn belt and great plains production areas in midsummer. If the drought had not intervened, creating a food shortage disaster for the nation and mankind, farmers would have been ruined in an economic disaster of collapsing grain and cotton prices to accompany the disastrously-low livestock and dairy prices that already prevail.

The present farm programs offer no meaningful protection to farmers against a price collapse if supplies should over-balance immediate demand by a significant margin. The price support loan rates now in effect for basic farm commodities are compared below with current parity prices:

Commodity	Price Support loan rate	Parity price Aug. 15, 1974	Price Support as percent of parity
Wheat (bushel)	$1.37	$4.05	34
Corn (bushel)	1.10	2.68	41
Cotton (pound)	.25	.73	34

Note: Farmers are eligible for payments on about half of their actual production in 1974 of the difference, if any, between average market prices received and the "established price" for the respective commodities. The "established prices" or 1974 are, for wheat—$2.05 per bushel; for corn—$1.38 per bushel; and for cotton—38 cents per pound.

The probability that farm prices will plunge back to the levels of two years ago if farmers produce a normal crop is a serious damper on their ability to expand, or even to maintain, their farm production capability.

The unreliability or outright lack of such production requisites as fertilizer, baler twine, fuel, herbicides and insecticides, barbed wire, irrigation pipe and equipment, spare parts, and other items, coupled with black market levels of prices for much of what supplies can be found, is an additional handicap to farmers' ability to achieve full production.

3. GOVERNMENT POLICIES AND ACTIONS TO CONTROL INFLATION

Our analysis of the causes of current "high prices" (set forth in paragraph 1 above) indicates that:

A. Demand is *generally depressed* in many sectors of our economy, rather than inflated, and this is causing serious present suffering and distress;

B. Some recently-raised prices are subject to the main to external control by exporting country governments, and cannot be affected, at least in the short run, by action of the U.S. Government;

C. Some recent price increases, including those for some agricultural commodities, are the appropriate and necessary remedy for shortages and should be maintained and reinforced rather than reduced;

D. Some continuously-upward-spiraling prices of both goods and services are fixed by *power pricing* mechanisms which operate in defiance of conventional economic theories of supply and demand.

Obviously problems of such widely varied origin and structure cannot be attacked by any single, simple solution. On the contrary, one of the primary necessities is to correct the simplistic and misleading view of the situation that is conveyed by the term "inflation." Each aspect of this varied economic problem needs to be tackled directly and positively, and in a manner that comes to grips realistically with the public's real interest.

MUST PREVENT DEPRESSION

First and foremost, it is essential to maintain full employment, high production, and stable consumer purchasing power. *The greatest danger to the nation is the possibility of financial and economic collapse and general depression.*

A depression in the United States would quickly spread throughout our trading system and to the underdeveloped countries. By the same token, a financial crash anywhere within our trading system would gravely undermine our own economic stability. A worldwide economic collapse would plunge the world into social and political chaos more profound than occurred in the 1930's.

Accordingly, we recommend:

An immediate program of public employment, offering to every person over 18 years of age a job in useful work at not less than the legal minimum wage;

Reduction of the burdens of federal income and social security taxes upon low-income persons, with the object of restoring real purchasing power for life's necessities to the average level prevailing in the 1960's;

Strengthening of social security, welfare, and food stamp benefits for the elderly, dependent children, and the disabled;

Immediate allocation of credit, at reduced and reasonable interest rates, for agriculture and other productive enterprises, and for housing construction.

REVIVE INTERNATIONAL COOPERATION

The *power pricing* action of the Organization of Petroleum Exporting Countries (OPEC) has brought home rudely the fact of the economic interdependence of all the countries, both industrialized and less-developed, in our non-Communist trading system. The United States pioneered and led in the practice as well as theory of international cooperation in the decades following World War II. Unfortunately, the U.S. Government torpedoed the outstanding example of international cooperation in raw materials trade when, in 1969, the U.S. Department of Agriculture forced down the price of U.S. wheat in world trade by 30 cents a bushel below the International Grains Agreement minimum. This was done by paying export subsidies to the grain exporting companies. The result was to drive would market wheat prices far below its true value, as later developments soon showed. In any event, the U.S. officials failed to support use of the procedures specified in the Agreement for adjusting prices, and instead took unilateral action.

Other internationl commodity agreements were similarly downgraded by the Nixon Administration's neglect, opposition, and lack of cooperation. Ironically, this pattern of hostility toward international commodity agreements had virtually eliminated from international affairs the very principle which Secretary of

State Kissinger later sought to have applied in dealing with the energy crisis arising from the OPEC pricing action.

Widespread support for the principle of international cooperation in commodity trade problems continues to exist in other countries throughout the world. We recommend:

Immediate initiatives by the United States to revive the principle of international cooperation by negotiation of a new International Grains Agreement, International Sugar Agreement, and International Dairy Agreement;

Parallel initiatives by the Untied tSates to develop international commodity agreements for trade-in petroleum, and other extractive raw materails and tropical agricultural commodities of which the United States is a major importer;

Parallel initiatives by the United States to develop, in cooperation with other countries instead of on a basis of "self-sufficiency", other sources and other forms of energy so as to reduce dependence upon petroleum.

FARMERS FACE "BOOM AND BUST"

The productive capacity of agriculture, both worldwide and in the United States, is far below real needs for the maintenance of human health and productive lives. Yet modern farmers, dependent as they must be upon high technology, purchased off-farm inputs, and other cash-demanding requirements, constantly face the prospect of collapsing prices and returns falling below their costs of production.

The present-day prospect of widespread starvation deaths within the coming 12 months demonstrates that world agricultural production is already deficient. But there is no way that agricultural production can be expanded sufficiently to keep pace with prospective peaks in demand, much less with the growth in real needs, unless farmers' income prospects can be assured and stabilized.

The prices farmers have received during the past two decades do not afford a reliable guide as to the price levels that would be needed in order to achieve an expansion of the agricultural production plant. In order to appraise the price levels that would be needed to expand basic agricultural production capacity, it is necessary to understand the nature and meaning of the internal adjustments that have been going on.

Apparent increases in *agricultural productivity* have been achieved by the substitution of capital and purchased non-farm in-puts for the farmer's labor and farm-produced resources. The modern farmer kills weeds with chemicals instead of a hoe; he buys gasoline and tractors instead of raising work-horses that burn hay and oats grown on the farm. The resulting increases in productivity (output per unit of farm-provided input) are, in part at least, only apparent and not real. The total labor and other non-farm resources that are used in modern agricultural production should be added to those contributed directly by the farmer and from the farm in order to arrive at a basis for accurate comparison with the productivity of the farms of a generation or two ago. The true net gains in productivity would then be perceived to be much lower than those commonly assumed.

FARM "PRODUCTION PLANT" SCALED DOWN

The real increases in *farm output* that have resulted from the combination of true gains in productivity and the addition of non-farm inputs has masked the contraction in the scale of the farm production plant that has occurred during the past half-century or so. American farms now require only about five million man-years of labor. This is less than half the labor force required only 20 years ago. And nearly 30 percent less cropland was being farmed in the 1970's than the peak some 40 years ago.

The process whereby the departed farmers and farm laborers, and the retired cropland too, have been withdrawn from employment in farming, is starkly and significantly different from the processes by which similar resources are withdrawn from employment in most industrial and commercial enterprises when and if they reduce their work force and production plant.

Lay-offs in industry characteristically are made on a seniority basis. The wage rates of workers who remain are maintained, and continue their general upward climb. Buildings and other industrial resources are shifted to other productive uses, or written-off against the firm's tax liabilities on its continuing earnings.

But the farmer who quits does so because *returns to all farmers* are depressed to such a low level that he cannot survive, or prefers to turn to another job, often at the cost of sacrificing much of the income-earning value of his equity in his farm and his farming skills and experience. When farmland is withdrawn from active production, it likewise reflects the low returns being received on all farmland, which in the case of the particular land that is withdrawn are not sufficient to cover the direct costs of continuing to produce with it. Very little of the 80-million-acre decline in harvested cropland during the past 40 years has been shifted to higher income-earning uses.

Agricultural and industrial enterprise systems also have sharply differing requirements when it comes to reversing the process of contraction and, instead, expanding overall productive capacity. Because it has been possible for 40 years to increase farm output by adding non-farm inputs and increasing labor and land productivity while reducing the farm labor force and cropland used, there has been almost no experience with trying to re-expand the farm labor force, or with bringing once-retired land back into production.

"THEY NEVER GO BACK . . . ."

The industrial firm, when it needs to expand its work force, simply re-hires laid-off workers at their old (or routinely "escalated") wage rate. But when he left the farm, the farmer probably sacrificed his farming career, cut loose from his psychological and social moorings, and took up a new life in town. He cannot be "rehired" to return to the farm at the rate of pay he was getting when he quit, nor even the rate of return that would have sufficed to keep him on the farm when he did decide to go.

Nor can the "retired" cropland be brought back into production at levels of returns that are sufficient to induce existing farmers to continue cropping compatible land. For the farming "overhead"—the package of labor, machinery, livestock, management—that was once available to crop that land was probably dissolved in the process when the land was allowed to lapse into idleness.

What this means is that the reversal of the long-term process of absolute contraction of the farming plant will require levels of income expectations that are *substantially higher* than those that might suffice to induce existing farmers to continue to produce.

FARM PROGRAMS NEEDED

Furthermore, farm income expectations will need to be substantially *more secure* and *more stable* than those that existing farmers demand as a condition of staying on the farm. In brief, *substantially higher prices* than at present, coupled with *greater security and stability* of farm prices, will be needed in order to reverse the long-term contraction of agriculture by attracting new investment and new commitments of management and labor into farming in order to re-expand the agricultural plant.

Similar constraints will affect expansion of capital-intensive agricultural production capacity in other countries, particularly in South America, Australia, and Africa, where the main possibilities exist of bringing "new" farmland into production. And here these constraints are likely to be satisfied in a manner that will add another problem for American farmers and the American economy:

Investors in such new agricultural developments are likely to insist upon positive ties to a home market, as in Japan or Europe, which will provide price guarantees and an assured outlet. This means that American farmers will probably face increasingly strong competitors enjoying favored status in leading export markets. This makes effective political and economic support from their own government more than ever important to American farmers.

In order to provide an adaptive yet effective system for encouraging American agriculture to realize the fullest opportunities that might arise for servicing the domestic and world markets and bolstering the American economy, we recommend the following coordinated and comprehensive farm price and supply stabilization program:

PLAN FOR "PARITY AND ABUNDANCE"

1. Non-recourse commodity loans should be offered to farmers at 90% to 100% of parity, to establish the minimum floor under market prices. Stocks of commodities would accumulate in loan status to the extent that supplies were more than sufficient to satisfy the market demand at about the parity price. The producer could sell his commodity at any time during the marketing year by repaying the loan and paying the accumulated interest and storage charges.

2. Farmers should be eligible for price support loans on eligible commodities stored in any approved facility, whether on the farm, in the farmers' cooperative, or in other approved storage facilities.

3. Price support loans should be extended from year-to-year, at the option of the farmer. When a commodity loan is extended, the government should absorb the interest and storage cost for the prior year if the market price of the commodity has not reached 110% of parity.

4. When supplies in the market become short and the market price approaches 110% of parity, farmers would have an incentive to repay their loans and sell their stored commodities so as to avoid incurring the cost of continued storage. But it would not be necessary for the government to "call" loans. The farmer should be permitted to hold his commodity in extended loan status if he wishes to absorb the storage and interest costs himself after the price reaches 110% of parity.

5. Commodities owned by the government should not be offered for sale into commercial markets at prices below the higher of the current market price or 115% of parity. If it should be considred necessary in order to assure that ample supplies would move into the market when needed, the Secretary of Agriculture could be authorized to enter into option agreements to buy the commodity from the farmer at a price of 115% of parity during the term of an outstanding initial or extended non-recourse loan. This would provide some flexibility to the government in meeting urgent requirements under exceptional conditions. But it would keep government-owned stocks totally insulated from the market so long as prices are below 115% of parity.

6. Voluntary or mandatory programs to restrain production of major farm commodities should be put into effect at any time that the Secretary of Agriculture determines that carry-over stocks of the commodity are likely to rise above the desired "reserve" level. Price supports should be maintained at 90% to 100% of parity. The minimum reserve should be established by Congress. The Farmers Union recommends that reserves be established at about 50% of the annual requirements for domestic use and exports in the case of food grains, 25% in the case of feed grains, and 35% in the case of cotton.

7. A new import control plan should be established which would eliminate practically all imports of any farm commodity when prices in the U.S. are below parity. A variable rate of duty, equal to the amount by which world market selling prices fall below 115% of parity, should be applied to any farm commodities imported into the U.S.

8. International agreements should be negotiated with other producing and consuming countries to provide for international cooperation to stabilize prices and supplies of agricultural commodities, particularly grains, dairy products, cotton, and sugar, through one or more of the following provisions:

(*a*) minimum and maximum prices in world trade (the Farmers Union proposes a range of prices between 90 % and 110% of parity);

(*b*) commitments to assure supplies to importing countries, and to assure access to markets for exporting countries;

(*c*) rules on the disposal or stockpiling of surplus domestic production;

(*d*) limitations or prohibitions on the use of export subsidies;

(*e*) cooperation among participating countries to manage the supplies put into the world market;

(*f*) consultations between governments on the effects of national price support programs on world trade;

(*g*) reserves of food and fiber, under the control of national governments but subject to international review, to assure importing countries of the reliability of exporting countries to meet their supply commitments, and to provide for naitonal and international emergencies.

NATIONAL "INCOME EQUITY" POLICY NEEDED

Prices and wages which are established by *power pricing* action should be made subject to a national incomes policy. Farmers have long subscribed to the idea that their prices and incomes should be supported by governmental action with the goal of attaining "parity". It is neither necessary nor desirable to make the government the arbiter of all prices, wages, salaries, and other incomes. But neither is it tolerable to permit the private exercise of economic power to dictate to the public the terms that must be met for needed goods and services.

Direct price and wage controls are burdensome and, we believe, not generally necessary nor desirable. But profits have become exhorbitant and prices have reached black market proportions in the case of some scarce and essential items like fertilizer, fuels, barbed wire, and the like, the production and marketing of which are highly concentrated and subject to monopolization. These prices should be *rolled back* to fair and reasonable levels, not merely "controlled" at their present extortionate levels. Strict regulation should be continued of prices of natural gas at the well-head.

Interest rates must be brought down immediately. High interest rates can do nothing beneficial to remedy the real economic problems that exist. We believe that the advocates of tight money and high interest rates in the present situation are, whether knowingly or not, serving to divert attention away from the true causes of high prices, and to head-off effective action to deal with them. The present tight money-high interest rates policy, combined with the "bust" in livestock and dairy prices resulting from mistakes in government farm policies, and the threat of a "bust" in grain prices next year, is placing the liquidity of country banks and Production Credit Associations in jeopardy. A financial collapse in the rural areas could knock out the props under our entire economy and plunge the nation into depression.

We favor the establishment of a national standard of returns on investment and management, and of wages and salaries, which can be supported as equitable and reasonable and in the public interest. This standard should serve as the basis for a system providing for full disclosure to the public of the incomes being received in the various sectors and industries of the economy, so as to permit the public to form sound judgments about price and wage actions.

We favor a policy of direct and positive intervention by the Government, in the most efficacious ways that can be found in each case, to correct exhorbitant and unreasonable prices and charges for services. The establishment of "yardstick" competition from publicly-owned or cooperative enterprises should be considered in a number of industries, including petroleum and steel.

Structural reform of such enterprises as health care and medical services should be fostered with the objective of increasing efficiency and reducing costs as well as correcting unreasonable charges.

More economical transportation, both of freight and passengers, and other essential services which are now inadequate and inefficient, should be provided with governmental financial help and regulation.

Sweeping reform of the federal tax structure, with particular emphasis upon improving the application of the "ability to pay" principle and the effective progressivity of personal income tax rates, should be the capstone of a national commitment to equitability and the public interest in allocating the burdens and benefits of our society.

4. ACTIONS IN THE PRIVATE SECTOR OF AGRICULTURE TO CONTROL INFLATION

Farmers are the most genuinely competitive producers in the economy; they pay the full economic penalty for their own waste or inefficiency. Food processing and marketing firms, in general, receive returns in investment and pay wage rates that are lower than the average in manufacturing industry. Yet their remains some scope for further gains in efficiency and reduction of costs through cooperative action by farmers, and by consumers. We favor the continual exploration by farmers and consumers of opportunities to reduce the cost of moving products from the farm to kitchen.

We believe the largest opportunity to reduce food costs to consumers lies in the rationalization of food merchandising practices for the goal of efficient provision of nutrition at least cost. Consumers pay $100 per bushel or more for wheat in the form of some highly-advertised, expensively-packaged, and grotesquely-fabricated breakfast foods, for example. Excessively-costly packaging for promotional rather than functional reasons adds cost to the consumer's grocery bill without commensurate nutritional value. We believe grocery manufacturers and retailers could score heavily with consumers by rejecting the infantilized appeals that are now so widespread in their merchandising, packaging, advertising, and promotional programs, and substituting a deliberate appeal to the rational interest of consumers in getting optimum nutrition at least cost.

5. POLICIES AND PRACTICES IN THE PRIVATE NON-FARM ECONOMIC SECTOR TO CONTROL INFLATION

We believe that the leaders of American society, at all levels from the communities to the White House, should join in an educational effort to secure understanding of the limits that exist upon the world's natural resources, the need to give thought to the requirements of future generations, and the moral imperative to practice conservation and unselfish restraint in our own care for and use of the finite resources of the earth during our time of stewardship.

Chairman HUMPHREY. Mr. Datt, please proceed.

STATEMENT OF JOHN C. DATT, DIRECTOR, CONGRESSIONAL RELATIONS, AMERICAN FARM BUREAU FEDERATION

Mr. DATT. Thank you very much, Senator Humphrey.

We appreciate the opportunity to participate in this hearing on the current agricultural situation.

For the record, farm bureau is the largest general farm organization in the United States with a membership of 2,393,731 families in 49 States and Puerto Rico. It is a voluntary nongovernmental organization, representing farmers who produce virtually every agricultural commodity that is produced on a commercial basis in this country.

Farm bureau policies are developed through study, discussion, and decision by majority vote at community, county, State, and national meetings. Our statement today is based on policies adopted by the voting delegates of the members State farm bureaus at our 1975 annual meeting which was held in New Orleans last January.

It will be confined to matters of broad general interest in the farm policy field with particular reference to our general attitude toward farm programs and our views on export controls, Government reserve stocks, world hunger, and the importance of the U.S. livestock industry in the efficient production of food.

FARM BUREAU'S OBJECTIVES

Our general attitude toward Government farm programs is summarized in the following extract from farm bureau policies for 1975:

> Our objective is to create a climate which will enable agriculture to operate under the market price system. Continuing use of direct commodity payments will not permit us to reach this objective. The target price concept of the 1973 Farm Act, which includes the compensatory payment approach in disguise, is unsound at any level.
>
> Farm programs should be designed and administered to enhance market opportunities, to the end that in the future farmers will not be dependent on government payments and will earn higher incomes in the marketplace.
>
> We oppose per farm payment limitations.
>
> We favor use of the set aside programs if needed to control production.

Our support for a market-oriented agriculture is based on a belief that farmers will do better under such a system than under a system that makes farm income dependent on political decisions. We are well aware of the fact that farmers are at a disadvantage in the political arena where decisions necessarily must reflect voting strength.

Farm people—including many people with very limited agricultural interests—were only 4.4 percent of the total U.S. population on April 1, 1974, and the farm operators who actually produce food and fiber and for the market are an even smaller percentage of total population.

Political decisions with regard to agriculture must, of necessity, reflect the fact that farmers are greatly outnumbered by nonfarm consumers. The target price compensatory payment program is more of a consumer program than a program for commercial farmers, since one of the objectives of this program is to encourage farmers and ranchers to produce without regard to the outlook for market demand.

EXPORT CONTROLS

If farmers and ranchers are to compete on the world market for production equipment and supplies, especially chemicals, fertilizer, and machinery, they must be allowed free access to world markets and world market prices without fear of embargoes or the strict licensing of exports.

Farmers cannot be expected to maintain full production of any commodity in the absence of free access to the world market for that commodity. It is, therefore, imperative that the Government give farmers concrete assurance prior to planting time that embargoes will not be applied during the ensuing year.

We strongly oppose any proposal to limit or control exports of U.S. agricultural commodities and any future governmental cancellation of grain sales—such as the one imposed in the fall of 1974. We also oppose all governmental monitoring activities and prior approval requirements relative to foreign grain sales.

GOVERNMENT RESERVES

Farm Bureau is opposed to the establishment of Government reserves of agricultural commodities. Government-controlled reserves are inconsistent with the objectives of a market-oriented agriculture. Experience over the past 40 years clearly shows that Government stocks hang over the market, and that the long-run effect of such stocks is to depress the average level of farm prices and farm income.

Reserves cannot be effectively isolated from the market.

Such a reserve inevitably becomes a part of the supply-demand equation, and buyers know that rules established to protect market prices always are subject to change.

Government-controlled reserves are not necessary for the protection of consumers. Domestic consumers have a great deal of protection in the productivity, diversity, and flexibility of American agriculture.

Farmers and the trade will maintain larger reserves if the U.S. Government does not take over this function. Government loans are available to help farmers carry reserve stocks.

Domestic processors and foreign buyers can protect their needs through advance contracts. Importing countries are free to maintain their own reserves, and food aid can be made available to less developed countries without adopting an approach that inevitably would lead to a Government-managed agriculture.

THE AMERICAN FARMER'S RESPONSIBILITY RELATIVE TO WORLD HUNGER

The best food reserve for America and for the people of the world is the productive capacity of our land, the ability of the American farmer, and the profit incentive system. We are safeguarding the interests of consumers through:

One, the tremendous productive capacity of American agriculture; two, the stocks carried by farmers, processors, and the trade; three, the fact that major crops are produced over wide geographic areas; and four, the flexibility that goes with a livestock economy.

We vigorously oppose U.S. participation in any internationally controlled food reserve.

To meet emergency food needs throughout the world, we favor establishment of an international monetary food fund to be used for purchase of food only in the amounts, and when, needed.

Such a fund should be supported by all nations of the world. To meet a disaster need, such as starvation, malnutrition, and other emergencies, funds could be withdrawn from the international monetary food fund to purchase needed food from any nation where it is available.

The establishment of an international monetary food fund would strengthen market demand and facilitate the extension of emergency aid to needy people without the adverse effects on producers that would flow from reserve stock plans.

GRAIN CONSUMPTION

The growing demand for food caused by population growth and the desire to upgrade diets requires maximum efficiency and a high level of food production.

Efforts are being made to persuade Americans to consume less meat and more grain. Advocates of this diet shift assume that it would increase the total food supply. This is an erroneous assumption.

There are in the United States approximately 600 million acres of non-tillable land that can be used only in the production of grass which cannot be used directly for human consumption.

The stover and straw left in the field after the harvest of grain is another large and valuable feed supply for the maintenance of livestock. In order to utilize fully the great amount of forage available from these sources the grazing of ruminant animals followed by a reasonable period of grain feeding is a desirable practice which, in fact, greatly enhances the total food supply.

Grain feeding improves quality, adds to quantity, and makes it possible to salvage many feeds, such as crop residues and byproducts that otherwise would be wasted. Grain feeding also improves the distribution of the meat supply as grass production is seasonal.

When all aspects of the production of food are considered, the feeding of grain to livestock is both efficient and desirable and adds to the total supply of high quality food.

We appreciate the opportunity to present our views in response to the inquiry or the questions that you raised in your letter.

Chairman HUMPHREY. Thank you very much, Mr. Datt.

Mr. Carpenter, we will proceed with you, and then we will come back to the questions.

STATEMENT OF L. C. CARPENTER, VICE PRESIDENT, MIDCONTINENT FARMERS ASSOCIATION

Mr. CARPENTER. Thank you, Mr. Chairman, and members of the committee. I appreciate this opportunity to appear. I want to make it clear at the outset that I am not a learned economist, and I am just presenting to you here today some views that I have received in almost daily contact with farmers in the Midwest.

I am therefore presenting a rather extensive written summary of my views, but for the convenience of the committee, I will limit my 15 minutes to merely outlining what I consider to be the highlights of this presentation.

Many questions are being asked about what the future holds for farmers, about the production of food and its cost to consumers and farm prices and farm income.

We have testified before both the Senate Agricultural and Forestry Committees and the House Agriculture Committee recommending loan prices at 70 percent of parity and target prices at 85 percent of parity.

You will find attached to my prepared statement exhibit IV, which graphically shows existing loan and target prices as well as the 85 percent of parity for target and 70 percent of parity for loan prices, also target and loan prices as passed by the House, and the published parity prices on February 15, 1975.

MFA is one of several farm organizations making up the National Farm Coalition with MFA president Fred Heinkel serving as chairman of the coalition. We support the emergency legislation which for this year will increase loan and target prices to a more realistic level.

The loan and target prices in the 1973 Agriculture and Consumer Protection Act, although at the time of passage appeared fairly reasonable, are under today's conditions totally inadequate.

If prices continue their current downward trend, they will lead to bankruptcy for thousands of good efficient farmers.

The Secretary of Agriculture is encouraging farmers to plant from fencerow to fencerow. Production costs are spiraling. Farmers' production costs were $12 billion more in 1973 than in 1972, and nearly $10 billion more in 1974 than in 1973, and probably will increase more this year.

Mr. Chairman, I was the principal speaker at an annual meeting of the MFA dairy cooperative just a few days ago. The meeting started with a luncheon where I had the opportunity to visit with a large number of general farmers, dairy being only part of their operations. Their main topic of discussion and the questions they asked me pertained largely to agricultural legislation.

Where will the loan and target prices be established, what crop would it be best to plant, and so forth. The one thought that I noted running through the entire group was to not go all out on production, to not use expensive fertilizer on pastures, and a feeling that since climatic conditions were somewhat adverse last year and a full crop was not produced, they will not need to apply fertilizer in the same proportions they had in the past.

I have a feeling that these plans may change materially if emergency farm legislation now being contemplated by both Houses of Congress is passed and signed by the President.

The House version of the wheat, feed grains, and dairy areas, would not cost the taxpayer anything provided existing market prices will remain at their present levels or above.

We would hope that later this year more comprehensive farm legislation would be passed by this Congress which incomporates the parity principle. Is it not as fair and equitable for farmers to be protected as it is for laborers and white collar workers to strive for and receive cost of living rises?

These people also receive unemployment benefits when they become unemployed. Understand, we do not object to these policies, but rather approve of them and would hope that farmers would see the day that they too can benefit by similar policies being enacted into law.

This question of strategic grain reserve is of interest to both consumers and farmers. Will a national reserve of food and fiber be established to meet emergency domestic and foreign needs and to serve to stabilize prices for both farmers and consumers?

In all of its history of acquiring surpluses, the Federal Government has never had a program to acquire farm commodities for the specific purpose of maintaining a strategic reserve for emergency purposes. Today Government-owned stocks are virtually depleted. Therefore, the need for an effective strategic reserve to meet domestic and foreign emergencies is urgent.

The target-price concept is conducive to establishing the type of reserve which we mentioned above and is essential to producing, marketing, and harvesting of crops by farmers at a price level that will not lead to bankruptcy.

It is our belief that if the Congress would enact legislation providing for adequate loan and target prices and for the establishment of a strategic reserve, farmers can and will produce food and fiber adequate to meet our domestic and foreign needs.

We all know the report of the USDA, and I will not take up your time to review that.

Yes, large group meetings of farmers are being held where they are advocating and asking those in attendance to sign up to reduce their acreage of essential crops in 1975.

I have not personally attended any of these meetings, but we have had some staff members in attendance. Both Mr. Heinkel and I have been approached to give a letter of endorsement to this movement. We have declined to do so. We are supporting the legislative process as the best solution to our immediate problems.

We have stated, however, that this should be an individual farmer's decision on what he wishes to do. It is my guess that when currently contemplated farm legislation is signed by the President, and shows signs of being properly administered, the purpose for which the movement was started will likely have attained its goal.

Mr. Chairman, farmers are faced with a horrendous economic problem. Climatologists are predicting unfavorable weather conditions.

Fertilizer prices are at an alltime high, farm fuel prices are expected to rise, the price of farm equipment is at an unprecedented level, and other farm supplies such as wire, twine, and so forth are uconscionably high.

I bought my own seed corn about 2 weeks ago at $44 per bushel.

Taking into consideration all of the above factors, it simply cannot be predicted at this time what farm production is likely to be for 1975.

Beef cattle prices are unreasonably low, and although there has been a slight rise, it has not made any noticeable improvement in the income to the farmer. Dairy farmers are faring somewhat better with the 80 percent production support and because of the substantial reduction in the cost of soybean meal and other proteins resulting in lower feed costs.

Future legislation providing for probably 85 percent of parity for support prices or at least adjustment quarterly if it remains at 80 percent will provide some assistance to dairy farmers.

The price of cotton has dropped approximately one-half within the last year. Cotton farmers are in trouble. Many still have their 1974 crop. Their 1975 intentions are to reduce cotton acreage by 29 percent.

If grain producers respond to the administration's plea for all-out production as now indicated, the resulting large potential production can be expected to cause farm prices to continue their downward trend.

As to retail food prices, the Secretary of Agriculture continues to insist that food prices will increase over the remainder of the 1975 year. Some farm products such as beef are selling at very low prices.

However, only a minimal change has been noted at the retail level. Farmers receive less than 40 cents out of each food dollar. In lieu of that circumstance, I would presume that retail food prices cannot be expected to necessarily follow declining farm prices.

We would hope that the prices of farm commodities would substantially strengthen during the year. If farm prices do not strengthen, Mr. Chairman, then I think this committee should take a hard look at the difference between the farm and the consumer prices.

FARM-RETAIL SPREAD

I am in no position to speak from a food processing or marketing point of view. I can speak only from a farmer's point of view. Transportation, labor, wholesalers, and retailers can set prices and make them stick. To date farmers have not been able to accomplish this.

TRIMMING RETAIL FOOD PRICES

Again, I am not an expert in this, but we at MFA are constantly at work though our research farm and laboratories seeking better and more efficient production methods. We strive for improved seed varieties. We test the effectiveness of pesticides, fertilizers, and other production aids. We could only urge that processors and handlers of food follow the same process, hopefully being able to reduce retail costs.

We have supported the requirement for exporting companies to report their sales. However, we do not agree that foreign sales above a given limit should require prior approval by Federal officials.

The reporting of exports provides a twofold purpose: First to alert us to foreign demands in order that farmers may realistically adjust to demand, and second, to assure that a few international grain firms or foreign governments do not corner the market of any of our farm products.

Weather, which climatologists are predicting is starting into an unfavorable cycle all over the world, will have a dominant effect on the amount the United States is able to export.

The new record value of farm exports of $22 billion in 1974 was a result of higher prices although for a lesser volume. MFA is one of the owners of the farmers export elevator at Ama, La. We believe that exports this year will likely be in about the same range as in 1974. We do have contracts extending into the 1975 harvest period.

However, it is a well-known fact and officials of the company tell me that because of adverse economic conditions all over the world, foreign demands for food and fiber are not as great as they have been over past years.

This is the $64 question. Net farm income in 1973 was at an alltime high of $32 billion, in 1974 dropped to $27.2 billion, and now is estimated for 1975 to drop to $20 billion or below.

Due to inflation, the buying power of farmers would be reduced to abount one-half that of 1973. Total farm income does not reflect the true economic health of the farm sector for there is a great disparity of income among farmers.

Grain farmers have done fairly well during the past 2 years, whereas livestock producers have experienced terrific losses. Some predict that without effective legislation, grain producers may experience the same economic blight that is being experienced by livestock producers.

Mr. Chairman, to illustrate the disparity in the financial conditions between grain producers and livestock producers, plus the trend toward worsened conditions for grain farmers, we have attached to the prepared statement three typical financial statements from Missouri Farmers: One is a hog producer in southwest Missouri; one is a combination dairy and beef producer also from southwest Missouri; and one is a grain farmer in northeast Missouri.

May I say, Mr. Chairman, where these figures came from, they do not have any names on them. They are actual applications made to a subsidiary of our company in which we extend loans to our patrons to purchase products from our respective organizations. I will just brief those and not go further into it.

Net worth of the hog producer decreased $11,000 during the year; net worth of the dairy and beef producer decreased by over $44,000; and in contrast, the net worth of the grain producer increased nearly $30,000.

May I comment aside on that, that he did buy a tract of land and increased materially the value over what he paid for it.

Now to evaluate the current cash flow. The dairy and beef producer experienced a decrease in net worth of $44,000 this past year and expects to have only $1,100 more income than total expenses—including principal payments—this year on his assets of $435,250.

Mr. Chairman, that is about half a million dollars, and an income anticipated of $1,100.

The grain producer expected to make over $15,000 above total expenses last year and now expects to fall short of meeting total expenses by over $500 this year.

In conclusion, Mr. Chairman, by increasing loan and target prices to meaningful levels, by stimulating international demand for U.S. food, including both grain and livestock products, and by establishing a strategic grain reserve to stabilize the effects of yearly imbalance of supply and demand, you will do much to stabilize farm prices at levels which will permit farmers to continue producing ample food and fiber for U.S. consumers and for export.

Thank you very much for the privilege of appearing here today.

Chairman HUMPHREY. Thank you, Mr. Carpenter. I ask unanimous consent for inclusion at this point in the hearing record the prepared statement of Mr. Carpenter with the accompanying exhibits.

[The prepared statement with accompanying exhibits follows:]

PREPARED STATEMENT OF L. C. CARPENTER

Mr. Chairman and Members of the Committee, my name is L. C. "Clell" Carpenter, Vice President of Midcontinent Farmers Association headquartered in Columbia, Missouri. As our name implies, we are a farm organization representing farmers in the mid-central area of the U.S.

I am delighted to be invited to testify before the Joint Economic Committee today and to have the opportunity to exchange views with others on the program. I understand the participants will form ourselves into a panel and have an opportunity to participate in a question and discussion period. I am presenting herewith a rather extensive written summary of our MFA views, but for the convenience of the Committee will limit my allowed fifteen minutes to merely outlining what I consider to be the highlights of this presentation.

This important Committee is to be commended for focusing their attention on the farm situation. Many questions are being asked about what the future holds for farmers, about the production of food and its cost to consumers, and farm prices and farm income. Further questions relate to the availability of farm commodities for export for both humanitarian and economic purposes, all of which boil down to what will our farm policies be for the future. Mr. Chairman, my answer to many of these problems will be based on the opportunity that I have almost daily to visit with grass roots farmers in whose minds these problems are foremost.

Mr. Chairman, I am taking the liberty of rearranging the order of some of the questions contained in your letter of March 7.

ADEQUACY OF PRESENT LEVEL OF TARGET PRICES

This is a question frequently asked by farmers: "Will emergency legislation bring loan and target prices to an established level to provide adequate protection for farmers against loss?". Would it serve as an inducement to farmers to plant within their base acreage when it becomes necessary to keep supply in line with demand?

We have testified before both the Senate Agriculture and Forestry Committee and the House Agriculture Committee recommending loan prices at 70 percent of parity and target prices at 85 percent of parity. We still believe the parity concept is by all means the most accurate measurement to keep farm income in proper relationship to the cost production. The parity concept, if properly applied, will help farmers to maintain an income somewhat commensurate with that in other segments of our society. You will find attached hereto Exhibit IV which graphically shows existing loan and target prices as well as the 85 percent of parity for target and 70 percent of parity for loan prices, also target and loan prices as passed by the House, and the published parity prices on February 15, 1975.

MFA is one of several farm organizations making up the National Farm Coalition with MFA President Fred Heinkel serving as Chairman of the Coalition. We support the emergency legislation which for this year will increase loan and target prices to a more realistic level. The loan and target prices in the 1973 Agriculture and Consumer Protection Act, although at the time of passage appeared fairly reasonable, are, under today's conditions, totally inadequate.

Present loan and target prices must be viewed for what they are under today's economic and food situation—presumed to be protection for farmers against price declines. If prices continue their current downward trend, they will lead to bankruptcy for thousands of good efficient farmers.

The Secretary of Agriculture is encouraging farmers to plant from fence row to fence row. They dare not do this without more protection against loss. The present price of beef cattle is an example of what can happen. Production costs are spiraling. Farmers' production costs were $12 billion more in 1973 than in 1972, and nearly $10 billion more in 1974 than in 1973. A recent USDA release stated that production costs during the last quarter have declined a minimal amount. General economic indicators lead us to believe that before the 1975 crop is harvested, production costs will likely be up rather than down. It is for this reason adequate protection must be provided with loan and target prices which reflect prevailing economic conditions.

Mr. Chairman, I was the principal speaker at an annual meeting of a MFA dairy cooperative just a few days ago. The meeting started with a luncheon where I had the opportunity to visit with a large number of general farmers, dairy being only part of their operations. Their main topic of discussion and the questions they asked me pertained largely to agricultural legislation. Where will the loan and target prices be established, what crop would it be best to plant, and so forth. The one thought that I noted running through the entire group was to not go all out on production, to not use expensive fertilizer on pastures, and a feeling that since climatic conditions were somewhat adverse last year and a full crop was not produced, they will not need to apply fertilizer in the same proportions they had in the past. This meeting was held in Northeast Missouri, one of our better productive areas, and included members from all over North Missouri and Southern Iowa. I have a feeling that these plans may change materially if emergency farm legislation now being contemplated by both houses of Congress is passed and signed by the President.

Mr. Chairman, since this is a joint economic conference, I think it would be entirely appropriate to point out that the legislation now being considered, particularly the House version on the wheat, feed grains, and dairy areas, would not cost the taxpayer anything providing existing market prices will remain at their present levels or above. It is true that there will be some cost to the government on the cotton section. Dairy prices to consumers might advance as much as one cent per quart.

We support this emergency legislation both as a farm organization and as a member of the Coalition. We would hope that later this year more comprehensive farm legislation will be passed by this Congress which incorporates the parity principle. Is it not as fair and equitable for farmers to be protected as it is for laborers and white collar workers to strive for and receive cost of living rises? These people also receive unemployment benefits when they become unemployed. Understand, we do not object to these policies, but rather approve of them and would hope that farmers would see the day that they too can benefit by similar policies being enacted into law.

STRATEGIC GRAIN RESERVE

This question is of interest to both consumers and farmers. Will a national reserve of food and fiber be established to meet emergency domestic and foreign needs and to serve to stabilize prices for both farmers and consumers?

In all of its history of acquiring surpluses, the Federal government has never had a program to acquire farm commodities for the specific purpose of maintaining a strategic reserve for emergency purposes. Today, government owned stocks are virtually depleted. Therefore, the need for an effective strategic reserve to meet domestic and foreign emergencies is urgent. Reserves should be bought during times of excess production when prices drop to target levels or below. We believe these reserves should be used only in times of shortages, emergencies, and at the price of at least 115 percent of parity or above. Through such procedures, the reserve can serve as a price stabilizing force. To the extent production exceeds demand, the excess could be drawn into the reserve and isolated from the market. When production falls short of need, a portion of the reserve could be released at prescribed price levels. With purchases at target price levels and sales at above parity prices, the program could be self-supporting.

Although many proposals have been advanced, we favor reserves at the following levels: wheat—600 mililon bushels; feed grains—40 million tons; cotton—5 million bales; and soybeans—250 million bushels. Approximately two-thirds of the stocks shoud remain on farms or under the control of farmers in their cooperative owned elevators.

The target price concept is conductive to establishing the type of reserve which we mentioned above and is essential to producing, marketing, and harvesting of crops by farmers at a price level that will not lead to bankruptcy.

It is our belief that if the Congress would enact legislation providing for adequate loan and target prices and for the establishment of a strategic reserve, farmers can and will produce food and fiber adequate to meet our domestic and foreign needs.

CROP PRODUCTION

March 1 USDA reports indicate about the same total acreage will be planted this year as in 1974, but due to economic conditions they are predicting food grain acreage will be up 3 percent, cotton acreage will be down 29 percent, soybean acreage will be up 6 percent, and feed grain acreage will be unchanged.

Yes, large group meetings of farmers are being held where they are advocating and asking those in attendance to sign up to reduce their acreage of essential crops in 1975. I have not personally attended any of these meetings, but we have had some staff members in attendance. Both Mr. Heinkel and I have been approached to give a letter of endorsement to this movement. We have declined to do so. We are supporting the legislative process as the best solution to our immediate problems. We have stated, however, that this should be an individual farmer's decision on what he wishes to do. It is my guess that when currently contemplated farm legislation is signed by the President and shows signs of being properly administered, the purpose for which the movement was started will likely have attained its goal.

Mr. Chairman, farmers are faced with a horrendous economic problem. Climatologists are predicting unfavorable weather conditions. In the Midwest, spring weather is the latest we have had for many years. Fertilizer prices are at an all-time high, farm fuel prices are expected to rise, the price of farm equipment is at an unprecedented level, and other farm supplies such as wire, twine, and so forth are unconscionably high. I bought my own seed corn about two weeks ago at $44 per bushel.

Taking into consideration all of the above factors, it simply cannot be predicted at this time what farm production is likely to be for 1975.

FARM PRICES

Much of the preceding has been dealing with this subject, therefore, I will endeavor not to be repetitive. Beef cattle prices are unreasonably low, and although there has been a slight rise, it has not made any noticeable improvement in the income to the farmer. Dairy farmers are faring somewhat better with the 80 percent support and because of the substantial reduction in the cost of soybean meal and other proteins resulting in lower feed costs. Future legislation providing for probably 85 percent of parity for support prices or at least an adjustment quarterly if it remains at 80 percent will provide some assistance to dairy farmers.

The price of cotton has dropped approximately one-half within the last year. Cotton farmers are in trouble. Many still have their 1974 crop. Their 1975 intentions are to reduce cotton acreage by 29 percent.

Based upon present supplies of food and feed grains and soybeans, strong prices would ordinarily be expected. Yet, grain prices are declining almost daily. If grain producers respond to the Administration's pleas for all out production, as now indicated, the resulting large potential production can be expected to cause farm prices to continue their downward trend.

Unusually low prices received by farmers for beef cattle, hogs, and dairy products have drastically reduced the domestic usage of feed grains because of adverse feeding ratios. It is difficult to anticipate any substantial increase in farm commodity exports which affect the price farmers receive for their products at harvest time.

RETAIL FOOD PRICES

The Secretary of Agriculture continues to insist that food prices will increase over the remainder of the 1975 year. Some farm products such as beef are selling at very low prices, however, only a minimal change has been noted at the retail level. Farmers receive less than 40 cents out of each food dollar. In lieu of that circumstance, I would presume that retail food prices cannot be expected to necessarily follow declining farm prices.

We would hope that the prices of farm commodities would substantially strengthen during the year. If farm prices do not strengthen, then Mr. Chairman, I think this Committee should take a hard look at the difference between the farm and the consumer prices.

FARM-RETAIL SPREAD

I am in no position to speak from a food processing or marketing point of view. I can speak only from a farmer's point of view. Transportation, labor, wholesalers, and retailers can set prices and make them stick. To date, farmers have not been able to accomplish this. While the farm value of the market-basket foods declined nearly 10 percent during the year ending February, 1975, the farm-retail spread increased nearly 19 percent.

TRIMMING RETAIL FOOD PRICES

This is a subject on which there is a great amount of discussion between both consumers and farmers. Farmers are recognized as a segment of our economy that over the past decade has made the greatest advances in technology, and in so doing, have made great savings in the cost of food production. No doubt, the handlers of food, the wholesalers and retailers, have also made some advances, but apparently have not to the same degree that farmers have improved their technology.

We at MFA are constantly at work through our Research Farm and laboratories seeking better and more efficient production methods. We strive for improved seed varieties. We test the effectiveness of pesticides, fertilizers and other production aides. We could only urge that processors and handlers of food follow the same process, hopefully being able to reduce retail costs.

EXPORT CONTROLS

We have supported the requirement for exporting companies to report their sales. However, we do not agree that foreign sales above a given limit should require prior approval by federal officials. Farmers and consumers share the same interests. Farmers are anxious to produce for both domestic and export demand, and in so doing, provide food and fiber for consumers both at home and abroad at a reasonable price. Providing food for export is essential to support our humanitarian goals, for strengthening the farm economy, and to improve our international balance of trade.

The reporting of exports provides a two-fold purpose: first to alert us to foreign demands in order that farmers may realistically adjust to demand, and second, to assure that a few international grain firms or foreign governments do not corner the market of any of our farm products.

OUTLOOK FOR EXPORTS

This is another question that past history can hardly be used as an accurate guide as to what is to come in the future. The U.S. has been striving and continues to do so to help developing countries improve their agricultural production. If this program is effective, export demands continue, but generally change to different commodities.

Weather, which climatologists are predicting is starting into an unfavorable cycle all over the world, will have a dominant effect on the amount the U.S. is able to export.

The exports in 1972 and 1973 were largely due to adverse climatic conditions coupled with government officials in charge of these programs who appeared to be determined to dispose of any surplus commodity and at almost any price. With the notoriety that the Russian wheat deal received, we would not anticipate a reoccurance of this process.

The new record value of farm exports of $22 billion in 1974 was a result of higher prices although for a lesser volume. MFA is one of the owners of the Farmers Export elevator at Ama, Louisiana. We believe that exports this year will likely be in about the same range as in 1974. This is predicated on the fact that the above mentioned elevator has contracts for foreign sales which extend into the 1975 harvest period. However, it is a well-known fact that due to adverse economic conditions all over the world, foreign demands for food and fiber are not as great as they have been over past years.

FARM INCOME

This is the $64 question. Net farm income in 1973 was at an all-time high of $32 billion, in 1974 dropped to $27.2 billion, and now it is estimated for 1975 to drop to $20 billion or below. Due to inflation, the buying power of farmers would be reduced by about one-half that of 1973. Total farm income does not reflect the true economic health of the farm sector for there is a great disparity of income among farmers. Grain farmers have done fairly well during the past two years, whereas livestock producers have experienced terrible losses. Some predict that without effective legislation, grain producers may experience the same economic blight that is being experienced by livestock producers.

Mr. Chairman to illustrate the disparity in the financial conditions between grain producers and livestock producers, plus the trend toward worsened conditions for grain farmers, we have attached hereto three typical financial statements from Missouri farmers. One is a hog producer in Southwest Missouri, one is a combination dairy and beef producer also from Southwest Missouri, and one is a grain farmer in Northeast Missouri.

Net worth of the hog producer decreased $11,000 during the year, net worth of the dairy and beef producer decreased by over $44,000, and in contrast, the net worth of the grain producer increased nearly $30,000. These figures indicate the present disparity in the financial well being between grain and livestock producers, but may I point out that the grain producers may not fair so well this year without effective legislation.

You will note also that the hog producer increased his current debt by $8500 last year and decreased his long-term debt by $1500 for a net increase in total debts of $7000. His assets decreased by $4000, however, although he has appreciated the value of his land by $3500, he still had a decrease in net worth of $11.000. (Exhibit I and IA.)

The current debt of the dairy and beef producer increased $36,000. His mortgaged debt decreased $4000 leaving an increase of $32,000 over the previous year. Assets for the year decreased by $12,350. You will note he now values his beef cows at $200 per head rather than $400 per head and also a decrease in the value of his calves by $100 per head. This $44,000 decrease in net worth of this dairy-beef producer is typical of the losses faced by cattlemen throughout the country. (Exhibit II and IIA.)

The current debt of the grain producer nearly doubled going from over $10,000 a year to $20,000 this year. His mortgaged debt increased $11,000 because of purchases of additional land. His assets increased over $50,000 reflecting the value of his newly purchased land and a decrease in his livestock holdings. (Exhibit III and IIIA.)

Now to evaluate the current cash flow. The dairy and beef producer experienced a decrease in net worth of $44,000 this past year and expects to have only $1100 more income than total expenses (including principal payments) this year on his assets of $435,250. The grain producer expects to make over $15,000 above total expenses last year and now expects to fall short of meeting total expenses by over $500 this year. These figures indicate that the favorable financial situation over the past few years for grain producers is now expected to follow the recently distressed financial situation of livestock producers. Action must be taken now to reverse the situation leading to losses for livestock producers and to improve the fastly deteriorating situation for grain producers.

In conclusion, Mr. Chairman, by increasing loan and target prices to meaningful levels, by stimulating international demand for U.S. food, including both grain and livestock products, and by establishing a strategic grain reserve to stabilize the effects of yearly imbalance of supply and demand, you will do much to stabilize farm prices at levels which will permit farmers to continue producing ample food and fibber for U.S. consumers and for export.

Thank you very much for the privilege of appearing here today.

61-349—75——7

Exhibit I

FINANCIAL STATEMENT—FARMER Columbia, Missouri FORM C-4 Jasper County Partnership or Individual

~~NAME~~ Hog Producer

Date Signed 11-26-73

P. O. Address Jasper County, Mo

For the purpose of obtaining credit from time to time, I make the following statement of my financial condition as of the above date

RESOURCES	Dollars	Cts	DEBTS	Dollars	Cts
Cash in bank or on hand	$ 300		Notes to bank	$	
Government securities			Notes other		
Other securities (specify)			Chattel mortgage: On Livestock to Commerce Bank Joplin, Mo	5,000	
Good notes & accounts due me			On Livestock to		
Live stock—per schedule below	30,000		On feed, etc. to		
Grain & farm products—per schedule below			On cars & trucks to Commerce Bank	1,500	
Other current assets (itemized)			On farm implements to [illegible]		
			On farm implements to Commerce Bank	700	
			Unpaid Income Taxes		
TOTAL CURRENT ASSETS	30,300		Cash Rent for current year unpaid		
Farm lands (per schedule)	47,000		Open accounts A 1 Inc Mfg	8,300	
City or town real estate (per schedule)			TOTAL CURRENT DEBTS	21,500	
Automobile—year 73 Chev wagon Depreciated value	4,000		First Mortgages on land FHA	14,000	
Truck Chev year 68 Depreciated value	1,100		Second mortgages on land Commerce Bank	13,000	
Farm Implements—Itemize on back	250		Mortgages on town property		
Other Assets—Itemize			Debts to relatives		
Full line Hog Equipment	4,000		All other debts itemize		
30 Portable Sow Houses	8,000		Total liabilities	48,500	
Hog nursery	3,000		NET WORTH	49,050	
TOTAL ASSETS	$ 97,550		TOTAL	$ 97,550	

I have endorsed notes for others $ I am bondsman for others $

LIVE STOCK SCHEDULE

				Dollars
	Bulls	@ $	per head	$
	Cows (Dairy)	@ $	per head	
	Cows (Stock)	@ $	per head	
	Calves	@ $	per head	
	Steers	@ $	per head	
	Steers	@ $	per head	
	Heifers	@ $	per head	
110	Brood sows	@ $ 150	per head	16,500
300	Stock hogs	lbs @ $ 30		7,000
30	Heavy hogs	lbs @ $ 100		3,000
7	~~Sheep~~ Boars	@ $		1,500
TOTAL (carry this total up)				$ 30,000

GRAIN & FARM PRODUCTS SCHEDULE

Bu corn	@ $	$
Bu beans	@ $	
Bu milo	@ $	
Bu wheat	@ $	
Tons Hay	@ $	
Tons Silage	@ $	
TOTAL (Carry this total up)		$

GROWING CROPS—CURRENT YEAR

Acres of corn	Acres of
Acres of wheat	Acres of
Acres of milo	Acres of
Acres of beans	Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Is Title Recorded	Present Value	Amount of Mortgage	Maturity	Held by
70		Husband & wife	47,000	14,000		FHA
				13,000		Commerce Bank Joplin Mo
		TOTALS	$ 47,000	$ 27,000		(Carry these totals up)

Names of Partners

Life Insurance carried $ 10,000

Fire Insurance carried $ 30,000

I represent this statement to be true and correct

Signed

EXHIBIT I—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leave Blank
	Tractor	John Deere			250	
			Totals			

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$	Family Living (Food, Cloth. Etc.)	$
Beef	$	Taxes - RE, Personal, Income	$
Hogs	$	Rent	$
Miscellaneous Livestock	$	Interest	$
Corn	$	Insurance	$
Wheat	$	Gas, Oil, Repairs	$
Beans	$	Feed	$
Miscellaneous Crops	$	Seed & Fertilizer	$
Custom Work	$	Labor Hired & Custom Work	$
Off-farm Income	$	Livestock Expense	$
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$
	$	Real Estate Payments	$
	$	Chattel Mortgage Payments	$
	$	Note Payments	$
TOTAL INCOME	$	TOTAL EXPENSES	$

EXHIBIT I-A

FINANCIAL STATEMENT—FARMER Columbia, Missouri Form C-4 Jasper County Partnership or Individual

NAME Hog Producer

Date Signed 12-31-75
P. O. Address Jasper County, Mo.

For the purpose of obtaining credit from time to time, I make the following statement of my financial condition as of the above date.

RESOURCES	Dollars	Cts.	DEBTS	Dollars	Cts.
Cash in bank or on hand	$ 200		Notes to bank	$	
Government securities			Notes other		
Other securities (specify)			Chattel mortgage hogs On Livestock to Commerce Bank Joplin, Mo	10,000	
Good notes & accounts due me			On Livestock to		
Live stock—per schedule below	27,055		On feed to Hygrade MFA	20,000	
Grain & farm products—per schedule below			On cars & trucks to		
Other current assets (itemized)			On implements to		
			On farm implements to		
			Unpaid Income Taxes		
TOTAL CURRENT ASSETS	27,255		Cash Rent current year unpaid		
Farm lands (per schedule)	50,500		Crop mortgage		
City or town real estate (per schedule)			TOTAL CURRENT DEBTS	30,000	
Automobile—year 73 Depreciated Value	3,000		First Mortgage on land	12,000	
Truck —year 68 Depreciated value	1,000		Second mortgages on land		
Farm Implements—Itemize on back	1,250		Mortgages on House & Sheds	13,500	
Other Assets—Itemize			Debts to relatives		
Feed line Hog Equipment	2,500		All other debts (itemize)		
30 Portable Sow Houses etc.	2,000		Total liabilities	55,500	
Hog Nursery	5,000		NET WORTH	38,005	
TOTAL ASSETS	$73,505		TOTAL	$73,505	

I have endorsed notes for others $ I am bondsman for others $

LIVE STOCK SCHEDULE

	Bulls	@ $	per head	$
	Cows (Dairy)	@ $	per head	
	Cows (Stock)	@ $	per head	
	Calves	@ $	per head	
	Steers	@ $	per head	
20	Gilts	@ $ 100	per head	2,000
8	Boars	@ $	per head	2,000
122	Brood sows	@ $ 140	per head	17,080
125	Stock hogs	40 lbs @ $ 25		3,125
18	Heavy hogs	180 lbs @ $ 75		1,350
150	Small Hogs	@ $ 10		1,500
	TOTAL (carry this total up)			$27,055

GRAIN & FARM PRODUCTS SCHEDULE

Bu. corn	@ $	$
Bu. beans	@ $	
Bu. milo	@ $	
Bu. wheat	@ $	
Tons Hay	@ $	
Tons Silage	@ $	
TOTAL (Carry this total up)		$

GROWING CROPS—CURRENT YEAR

Acres of corn	Acres of
Acres of wheat	Acres of
Acres of milo	Acres of
Acres of beans	Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Is Title Recorded	Present Value	Amount of Mortgage	Maturity	Held by
90		Husband & wife	House & Sheds 25,000	13,500	2002	FHA Carthage
			5 acres 25500	12,000	3 1982	Commerce Bank Joplin Mo
	TOTALS		$ 50,500	$ 25,500		(Carry these totals up)

Names of Partners

Life Insurance carried $ 40,000

Fire Insurance carried $ yes

I represent this statement to be true and correct.

Signed

Exhibit I-A—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leave Blank
	Tractor	John Deere			250	
			Totals			

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$	Family Living (Food, Cloth. Etc.)	$
Beef	$	Taxes - RE, Personal, Income	$
Hogs	$	Rent	$
Miscellaneous Livestock	$	Interest	$
Corn	$	Insurance	$
Wheat	$	Gas, Oil, Repairs	$
Beans	$	Feed	$
Miscellaneous Crops	$	Seed & Fertilizer	$
Custom Work	$	Labor Hired & Custom Work	$
Off-farm Income	$	Livestock Expense	$
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$
	$	Real Estate Payments	$
	$	Chattel Mortgage Payments	$
	$	Note Payments	$
TOTAL INCOME	$	TOTAL EXPENSES	$

Exhibit II

FINANCIAL STATEMENT—FARMER Columbia, Missouri FORM C-4 Dallas Co.

Partnership or Individual

~~NAME~~ Dairy-Beef Producer

Date Signed 2-21-74

P. O. Address Dallas County Mo.

For the purpose of obtaining credit from time to time, I make the following statement of my financial condition as of the above date

RESOURCES	Dollars	Cts
Cash in bank or on hand	$ 1,000	00
Government securities		
Other securities (specify)		
Good notes & accounts due me		
Live stock—per schedule below	103,000	—
Grain & farm products—per schedule below	4,100	00
Other current assets (itemized)		
TOTAL CURRENT ASSETS	108,100	00
Farm lands (per schedule)	300,000	00
City or town real estate (per schedule)		
Automobile—year 73 Depreciated value	3,000	00
Truck 1/2—year 74 Depreciated value	4,600	00
Farm Implements—Itemize on back	31,500	—
Other Assets—Itemize		
TOTAL ASSETS	$ 446,600	00

DEBTS	Dollars	Cts
Notes to bank	$	
Notes other		
Chattel mortgages On Livestock to Urban Bank	60,000	00
On Livestock to		
On feed, etc., to MFA	22,000	—
On cars & trucks to		
On farm implements to		
On farm implements to		
Unpaid Income Taxes		
Cash Rent for current year unpaid		
Open accounts		
TOTAL CURRENT DEBTS	82,000	—
First Mortgages on land	92,000	00
Second mortgages on land		
Mortgages on town property		
Debts to relatives		
All other debts (itemize)		
Total liabilities	174,000	—
NET WORTH	272,600	—
TOTAL	$ 446,600	00

I have endorsed notes for others $ I am bondsman for others $

LIVE STOCK SCHEDULE

5	Bulls	@ $500.00 per head	$ 2,500.00
84	Cows (Dairy)	@ $500.00 per head	42,000 —
106	Cows (Stock)	@ $400.00 per head	42,400.00
70	Calves	@ $150.00 per head	10,500.00
17	Steers	@ $200.00 per head	3,400.00
	Steers	@ $ per head	
12	Heifers	@ $250.00 per head	3,000.00
	Brood sows	@ $ per head	
	Stock hogs	lbs @ $	
	Heavy hogs	lbs @ $	
	Sheep	@ $	
	TOTAL (carry this total up)		$103,800.00

GRAIN & FARM PRODUCTS SCHEDULE

200	Bu corn	@ $	$ 500.00
X	Bu beans	@ $	
X	Bu milo	@ $	
	Bu wheat	@ $	
60	Tons Hay	@ $ 60.00	3,600.00
	Tons Silage	@ $	
	TOTAL (carry this total up)		$ 4,100.00

GROWING CROPS—CURRENT YEAR

X Acres of corn
50 Acres of wheat
Acres of milo
Acres of beans
Acres of Hay & Pasture
Acres of
Acres of
Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Is Title Recorded	Present Value	Amount of Mortgage	Maturity	Held by
805		Husband & wife	300,000.00	92,000.00	200.00 Per Month + 2,000.00 per year + Interest	
TOTALS			$300,000.00	$92,000.00		(Carry these totals up)

Names of Partners

Life Insurance carried $

Fire Insurance carried $

I represent this statement to be true and correct.

Signed

EXHIBIT II—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leave Blank
	tractor	Ford	4000		4,500.00	
	tractor	Ford	5000		7,500.00	
	truck	Ford			500.00	
	Hay Mach.				6,000.00	
	Milk Equipment				8,000.00	
	Misc				5,000.00	
			Totals		31,500.00	

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$	Family Living (Food, Cloth. Etc.)	$
Beef	$	Taxes - RE, Personal, Income	$
Hogs	$	Rent	$
Miscellaneous Livestock	$	Interest	$
Corn	$	Insurance	$
Wheat	$	Gas, Oil, Repairs	$
Beans	$	Feed	$
Miscellaneous Crops	$	Seed & Fertilizer	$
Custom Work	$	Labor Hired & Custom Work	$
Off-farm Income	$	Livestock Expense	$
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$
	$	Real Estate Payments	$
	$	Chattel Mortgage Payments	$
	$	Note Payments	$
TOTAL INCOME	$	TOTAL EXPENSES	$

Exhibit II-A

Dallas Co.

FINANCIAL STATEMENT—FARMER Columbia, Missouri FORM C-4 **Partnership or Individual**

~~NAME~~ Dairy-Beef Producer

Date Signed 3-11-75

P. O. Address Dallas County, Mo.

For the purpose of obtaining credit from time to time, I make the following statement of my financial condition as of the above date

RESOURCES	Dollars	Cts	DEBTS	Dollars	Cts
Cash in bank or on hand	$ 17,000	00	Notes to bank	$	
Government securities			Notes other		
Other securities (specify)			Chattel mortgage: On Livestock to Production Credit	70,000	00
Good notes & accounts due me			On Livestock to		
Live stock—per schedule below	72,000	00	On feed, etc., to		
Grain & farm products—per schedule below	4,500	00	On cars & trucks to		
Other current assets (itemized)			On farm implements to		
			On farm implements to		
			Unpaid Income Taxes		
TOTAL CURRENT ASSETS	93,500	00	Cash Rent for current year unpaid		
Farm lands (per schedule)	300,000	00	Open accounts [illegible]	28,000	00
City or town real estate (per schedule)			TOTAL CURRENT DEBTS	118,000	00
Automobile—year Depreciated value			First Mortgages on Land	88,000	00
Truck —year Depreciated value			Second mortgages on land		
Farm Implements—Itemize on back	40,750	00	Mortgages on personal property		
Other Assets—Itemize			Debts to relatives		
			All other debts (itemize)		
			Total liabilities	206,000	00
			NET WORTH	228,250	00
TOTAL ASSETS	$ 434,250	00	TOTAL	$ 434,250	00

I have endorsed notes for others $ I am bondsman for others $

LIVE STOCK SCHEDULE

4	Bulls	@ $ 500.00 per head	$ 2,000	00
84	Cows (Dairy)	@ $ 500.00 per head	42,000	00
122	Cows (Stock)	@ $ 200.00 per head	24,400	00
45	Calves	@ $ 50.00 per head	2,250	00
	Steers	@ $ per head		
	Steers	@ $ per head		
7	Heifers	@ $ 300.00 per head	2,100	00
	Brood sows	@ $ per head		
	Stock hogs	lbs @ $		
	Heavy hogs	lbs @ $		
	Sheep	@ $		
	TOTAL (carry this total up)		$ 72,750	00

GRAIN & FARM PRODUCTS SCHEDULE

	Bu corn	@ $	$	
	Bu beans	@ $		
	Bu milo	@ $		
	Bu wheat	@ $		
90	Tons Hay	@ $ 50	4,500	00
	Tons Silage	@ $		
	TOTAL (Carry this total up)		$ 4,500	00

GROWING CROPS—CURRENT YEAR

Acres of corn — Acres of
30 Acres of wheat — Acres of Hay & Pasture
Acres of milo — Acres of
Acres of beans — Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Title Recorded	Present Value	Amount of Mortg.	Maturity	Held by
805		Husband & wife	300,000.00	88,000.00	1,000.00 Pr. Prin + Int.	
TOTALS			$ 300,000.00	$ 88,000.00		(Carry these totals up)

Names of Partners

Life Insurance carried $

Fire Insurance carried $

I represent this statement to be true and correct.

Signed

EXHIBIT II-A—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leave Blank
	Tractor	Ford	4000		4,500.00	
	Tractor	Ford	5000		10,000.00	
	Mower & Cond	N H	12 ft		3,000.00	
	Baler	N H	275		2,500.00	
	Bush Hog Plow				1,500.00	
	Bush Hog				750.00	
	Disk				1,500.00	
	Milk Equipment				8,000.00	
	Chev 1965 2 Ton	Chev			2,000.00	
74	Chev 3/4 Ton	Chev	4 wheel Dr.		4,000.00	
73	Car	Chev			3,000.00	
			Totals		40,750.00	

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$ 60,000.00	Family Living (Food, Cloth. Etc.)	$ 2,400.00
Beef	$ 18,300.00	Taxes - RE, Personal, Income	$ 1,000.00
Hogs	$	Rent	$
Miscellaneous Livestock	$	Interest	$ 10,000.00
Corn	$	Insurance	$ 1,200.00
Wheat	$	Gas, Oil, Repairs	$ 2,400.00
Beans	$	Feed	$ 40,000.00
Miscellaneous Crops	$	Seed & Fertilizer	$
Custom Work	$	Labor Hired & Custom Work	$ 7,000.00
Off-farm Income	$	Livestock Expense	$ 200.00
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$
	$	Real Estate Payments	$ 5,000.00
	$	Chattel Mortgage Payments	$ 6,000.00
	$	Note Payments	$
TOTAL INCOME	$ 78,300.00	TOTAL EXPENSES	$ 77,200.00

EXHIBIT III

FINANCIAL STATEMENT—FARMER Columbia, Missouri FORM C-4 **Partnership or Individual**

NAME Grain Producer

Date Signed MARCH 6, 1974

P. O. Address LEWIS COUNTY Mo.

For the purpose of obtaining credit from time to time, I make the following statement [illegible] condition as of the above date

RESOURCES	Dollars	Cts
Cash in bank or on hand	$ 200	–
Government securities		
Other securities (specify)		
Good notes & accounts due me		
Live stock – per schedule below	6,250	–
Grain & farm products – per schedule below	11,720	–
Other current assets (itemized)		
TOTAL CURRENT ASSETS	18,170	–
Farm lands (per schedule)	95,700	–
City or town real estate (per schedule)		
Automobile—year 1969 Depreciated value	1,200	00
Truck – year 1959 Depreciated value	1,500	00
Farm Implements—Itemize on back	33,900	–
Other Assets—Itemize 1970 DODGE TRUCK	2,000	–
TOTAL ASSETS	$ 152,470	00

DEBTS	Dollars	Cts
Notes to bank	$ 10,000	–
Notes other		
Chattel mortgages On Livestock to		
On Livestock to		
On feed, etc., to	500	–
On cars & trucks to		
On farm implements to		
On farm implements to		
Unpaid Income Taxes		
Cash Rent for current year unpaid		
Open accounts		
TOTAL CURRENT DEBTS	10,500	00
First Mortgages on land	21,000	–
Second mortgages on land	27,000	–
Mortgages on town property		
Debts to relatives		
All other debts (itemize)		
Total liabilities	58,500	00
NET WORTH	93,970	00
TOTAL	$ 152,470	00

I have endorsed notes for others $

I am bondsman for others $

LIVE STOCK SCHEDULE

	Bulls	@ $ per head	$	
	Cows (Dairy)	@ $ per head		
5	Cows (Stock)	@ $ 300 per head	1,500	–
5	Calves	@ $ 150 per head	750	–
	Steers	@ $ per head		
	Steers	@ $ per head		
6	Heifers	@ $ 250 per head	1,500	–
	Brood sows	@ $ per head		
125	Stock hogs	lbs @ $ 20	2,500	–
	Heavy hogs	lbs @ $		
	Sheep	@ $		
	TOTAL (carry this total up)		$ 6,250	00

GRAIN & FARM PRODUCTS SCHEDULE

2500	Bu corn	@ $ 3–	$ 7,500	–
600	Bu beans	@ $ 6.25	3,750	–
	Bu milo	@ $		
	Bu wheat	@ $		
	Tons Hay	@ $		
40	Tons Silage	@ $ 12–	480	–
	TOTAL (Carry this total up)		$ 11,720	00

GROWING CROPS—CURRENT YEAR

175 Acres of corn	Acres of
Acres of wheat	Acres of
Acres of milo	Acres of
175 Acres of beans	Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Is Title Recorded	Present Value	Amount of Mortgage	Maturity	Held by
239	Lewis Co.-Mo.		71,700	27,000		
80	"		24,000	21,000		
319 ACRES	TOTALS		$ 95,700	$ 48,000	(Carry these totals up)	

Names of Partners

Life Insurance carried $

Fire Insurance carried $

I represent this statement to be true and correct

Signed

EXHIBIT III—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leav. Unn:
1969	TRACTOR	MF	1100	6,100	7000	
1970	"	"	"	5800	7,000	
1966	COMBINE	MF	410	6,500	6,500	
	MISC. EQUIPMENT				13,400	
			Totals		33,900	

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$	Family Living (Food, Cloth. Etc.)	$ 4000
Beef	$ 2000	Taxes - RE, Personal, Income	$ 1400
Hogs	$ 4000	Rent	$
Miscellaneous Livestock	$	Interest	$ 4700
Corn	$ 35,000	Insurance	$ 1822
Wheat	$	Gas, Oil, Repairs	$ 4000
Beans	$ 21,000	Feed	$ 4000
Miscellaneous Crops	$	Seed & Fertilizer	$ 19000
Custom Work	$	Labor Hired & Custom Work	$
Off-farm Income	$	Livestock Expense	$
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$ 38,922.00
	$	Real Estate Payments	$ 4000.00
	$	Chattel Mortgage Payments	$
	$	Note Payments	$ 4,000.00
TOTAL INCOME	$ 62,000.00	TOTAL EXPENSES	$ 46,922.00

Exhibit III-A

FINANCIAL STATEMENT—FARMER Columbia, Missouri FORM C-4 Partnership or Individual

NAME: Grain Producer

Date Signed January 20, 1975

P O Address Lewis County, Mo.

For the purpose of obtaining credit from time to time, I make the following statement of my financial condition as of the above date

RESOURCES	Dollars / Cts	DEBTS	Dollars / Cts
Cash in bank or on hand	$ 1,000.00	Notes to bank	$ 20,000.–
Government securities		Notes other	
Other securities (specify)		Chattel mortgages On Livestock to	
Good notes & accounts due me		On Livestock to	
Live stock per schedule below	3,000.00	On feed, etc., to	
Grain & farm products - per schedule below	6,200.00	On cars & trucks to	
Other current assets (itemized)		On farm implements to	
		On farm implements to	
		Unpaid Income Taxes	
TOTAL CURRENT ASSETS	10,200.00	Cash Rent for current year unpaid	
Farm lands (per schedule)	151,700.00	Open accounts	
City or town real estate (per schedule)		TOTAL CURRENT DEBTS	20,000.–
Automobile—year 1975 Depreciated value	6,000.–	First Mortgages on land	39,000.–
Truck —year 1959 Depreciated value	1,500.–	Second mortgages on land	20,000.–
Farm Implements—Itemize on back	32,000	Mortgages on town property	
Other Assets —Itemize		Debts to relatives	
1970 Dodge Truck	1,500.–	All other debts (itemize)	
		Total liabilities	79,000.00
		NET WORTH	123,900.00
TOTAL ASSETS	202,900.00	TOTAL	$ 202,900.00

I have endorsed notes for others $ I am bondsman for others $

LIVE STOCK SCHEDULE

Bulls	@ $	per head	$
Cows (Dairy)	@ $	per head	
15 Cows (Stock)	@ $ 200	per head	3,000.–
Calves	@ $	per head	
Stags	@ $	per head	
Steers	@ $	per head	
Heifers	@ $	per head	
Brood sows	@ $	per head	
Stock hogs	lbs @ $		
Heavy hogs	lbs @ $		
Sheep	@ $		
TOTAL (carry this total up)			$ 3,000.00

GRAIN & FARM PRODUCTS SCHEDULE

2,000	Bu corn	@ $ 2.50	$ 5,000.00
200	Bu beans	@ $ 6.–	1,200.–
	Bu milo	@ $	
	Bu wheat	@ $	
	Tons Hay	@ $	
	Tons Silage	@ $	
TOTAL (Carry this total up)			$ 6,200.00

GROWING CROPS—CURRENT YEAR

200	Acres of corn	Acres of
10	Acres of wheat	Acres of
	Acres of milo	Acres of
150	Acres of beans	Acres of

SCHEDULE OF REAL ESTATE OWNED

No. of Acres	Location	In Whose Name Is Title Recorded	Present Value	Amount of Mortgage	Maturity	Held by
319	Lewis Co.		95,700	39,000		
140	"		56,000	20,000		
		TOTALS	$151,700	$ 59000		(Carry these totals up)

Names of Partners

Life Insurance carried $

Fire Insurance carried $

I represent this statement to be true and correct

Signed

EXHIBIT III-A—Continued

***In figuring "Present Value," please depreciate 30% the 1st year, 20% the 2nd year, and 10% each year thereafter.

SCHEDULE OF FARM IMPLEMENTS

Year	Implement	Make	Model	Original Cost	Present Value***	Leave Blank
1969	TRACTOR	MF	1100	6100	7000	
1970	"	MF	1100	5800	7000	
1966	COMBINE W/CORN HED	MF	410		8000	
	MISCL EQUIPMENT				10,000	
			Totals		32,000	

Carry this figure forward to front page under "Farm Implements"

INCOME		EXPENSES	
Dairy	$	Family Living (Food, Cloth. Etc.)	$ 5000
Beef	$ 1000	Taxes - RE, Personal, Income	$ 760
Hogs	$	Rent	$ 500
Miscellaneous Livestock	$	Interest	$ 8160
Corn	$ 36000	Insurance	$ 2000
Wheat	$ 1000	Gas, Oil, Repairs	$ 3000
Beans	$ 18000	Feed	$ 150
Miscellaneous Crops	$	Seed & Fertilizer	$ 22000
Custom Work	$	Labor Hired & Custom Work	$
Off-farm Income	$	Livestock Expense	$
Other:	$	Livestock Purchased	$
	$	SUB-TOTAL - EXPENSES	$ 41,570.00
	$	Real Estate Payments	$ 8000.00
	$	Chattel Mortgage Payments	$ 7000.00
	$	Note Payments	$
TOTAL INCOME	$ 56,000.00	TOTAL EXPENSES	$ 56,570.00

Exhibit IV

COMPARISON OF PRESENT TARGET AND LOAN PRICES WITH THOSE PROPOSED BY MFA AND HOUSE AGRICULTURAL SUBCOMMITTEE

Commodity	Present target price	Percent	Present loan price	Percent	MFA: Target (85 percent of parity)	MFA: Loan (70 percent of parity)	House subcommittee: Proposed target price	House subcommittee: Percent	House subcommittee: Proposed loan price	House subcommittee: Percent	Feb. 15 parity price
Wheat	$2.05	46	$1.37	31	$3.78	$3.12	$3.10	70	$2.50	56	$4.45
Corn	1.38	47	1.10	37	2.52	2.07	2.25	76	1.87	63	2.96
Soybeans			2.25	34		4.65			3.90	57	6.64
Cotton	.38	50	(1)		.64	.53	.48	63	.40	53	.76

1 90 percent of average world price.

Note: Percentage figures are based upon Feb. 15, 1975, parity prices.

VARIOUS PERCENTAGES OF FEB. 15 PARITY PRICES FOR SELECTED COMMODITIES

Commodity	65 percent	70 percent	75 percent	80 percent	85 percent	90 percent	95 percent	100 percent	105 percent	110 percent	115 percent	120 percent
Wheat	$2.89	$3.12	$3.34	$3.56	$3.78	$4.01	$4.23	$4.45	$4.67	$4.90	$5.12	$5.34
Corn	1.92	2.07	2.22	2.37	2.52	2.66	2.81	2.96	3.11	3.26	3.40	3.55
Soybeans	4.32	4.65	4.98	5.31	5.64	5.98	6.31	6.64	6.97	7.30	7.64	7.97
Cotton	.49	.53	.57	.61	.64	.68	.72	.76	.79	.83	.87	.91

Exhibit V—Farm Parity Ratio Drops to 68

Farm prices declined 2% during the month ended March 15, 1975. This is the fifth consecutive month of declining farm prices. The average of all farm prices was down 15% from a year earlier.

Prices paid by farmers fell 0.5% in the latest month, but were still 10% above a year ago. The parity ratio dropped from 69 at mid-February to 68 at mid-March.

Nearly all farm prices dropped, with soybeans contributing most to the price decline. Cattle and sheep were among the few exceptions, as their prices rose slightly during the month.

Farmers paid less for family living items and livestock feed, offsetting higher prices for machinery and feeder livestock.

A comparison of prices received during the month ended March 15 with those received a month and year earlier, plus parity prices follows:

Commodity	Prices received by farmers: Mar. 15, 1975	Feb. 15, 1975	Mar. 15, 1974	Parity prices
Wheat (bushel)	$3.65	$3.95	$4.96	$4.43
Rye (bushel)	2.15	2.41	2.66	2.22
Oats (bushel)	1.46	1.58	1.40	1.41
Corn (bushel)	2.67	2.86	2.68	2.94
Barley (bushel)	2.55	2.89	2.61	2.45
Sorghum (hundredweight)	4.03	4.21	4.25	4.94
Cotton (Am. upland, pound)	.30	.32	.534	.753
Soybeans (bushel)	5.31	5.72	5.96	6.61
Hogs (hundredweight)	38.30	38.40	35.00	46.60
Beef cattle (hundredweight)	27.80	26.90	40.70	53.60
Milk (hundredweight)	8.17	8.28	8.94	
Turkeys (live per pound)	.303	.308	.32	.452
Eggs (dozen)	.541	.543	.566	.734

Chairman Humphrey. Senator Proxmire, you didn't have a chance to interrogate the previous witnesses.

Senator Proxmire. I would like, Mr. Chairman, to thank all of these gentlemen for the statements they have submitted. They are very helpful and thoughtful, and I want to congratulate the chairman on having this panel of five witnesses today. It is one of the best I have heard in a long time, and I am so happy to hear the emphasis on the farm problem which is so critical for our time.

I would like to start off, Mr. Carpenter, with your presentation, because it is pretty devastating, especially the records that you have here in the back, and I know that that is not atypical. These are not just a few of the farmers who are losing a little money. I found in my State that this is overwhelmingly the case.

We lost about 10 farmers a day in Wisconsin last year, and they are very efficient farmers. We have lost farmers, of course, over a 20-year period, and the only farmers left were the efficient farmers. They had survived in spite of the fact that the number of farmers had declined.

I would like to call attention particularly, because each of these are devastating cases that Mr. Carpenter has assembled to the dairy farmer. An unusually big dairy farmer is the one I am referring to, and we have very few dairy farmers in our State who are this big—84 dairy cows, 182 stock cows, and 44 calves, and as you say, $444,000 of assets. He allowed $2,400 for family costs, food, clothing, and so forth for the family—$2,400. I do not know how he lived on it.

Mr. CARPENTER. That is below the poverty level.

Senator PROXMIRE. It certainly is. And he netted, as you say, $1,100. This is why these farmers, though they love the life, their whole environment, their fathers in many cases, and their grandfathers, lived on the farm, their children love it, and it is a wholesome and great life, and they have to give it up.

They cannot survive. I think you have made a devastating case on it.

I would like to ask Mr. Datt in connection with this, in view of the background Mr. Carpenter has given us, why is it, Mr. Datt, that you feel we can ride up on the market system without any Government action? You want even less than we have had, for a farm economy that is as devastated as ours is today.

I notice here in our economic indicators that our parity is now 70 percent. Last year, 1974, farm prices went down in March, April, May, June, September, November, December, and in this year, January and February. The farm costs went up every one of those months.

How can we expect to keep a healthy farm economy if we simply ignore it and permit this kind of situation to continue?

Mr. DATT. Well, we are as much concerned about it as you. First of all, I would say that our statement, as it relates to the type of Government program that we have been interested in and have supported, shows that the Farm Bureau has supported over the years the use of the so-called Government loan program, and we still continue to support that.

We are currently supporting an increase in the loan level for cotton. We have proposed a shift from nonrecourse loans to recourse loans in the case of wheat and feed grains.

Congress obviously, at least in this bill, has decided not to go in that direction. I think we recognize that there is a need for an increase in the loan levels.

We have supported the dairy price support program. There have been some differences as to what level we thought the price support ought to be or to have been.

So, my first answer is that we have supported and continue to support various types of Government programs in agriculture.

I did not discuss, and I mentioned in the statement, and I have not seen Mr. Carpenter's material, but I suspect that one of the biggest things that probably has contributed to the problem we are in today is the general inflationary spiral that farmers find themselves in, and increased costs. In the early stages of inflation—as you well know from being an outstanding economist—in the early stages of the inflationary period, farmers usually do pretty well, but when you get to the latter stages, and that is where we hopefully are, in those stages farmers do not do well, because they get caught in the increased costs and the other factors involved in an inflationary period.

So I would say that we are as much concerned about the efforts to deal with some of the inflationary problems we have in this country. We are very concerned.

Senator PROXMIRE. Isn't it vital, if you are going to maintain family farms that the small family that has relatively limited assets and capital, and even the farm with $500,000 is not unusual, isn't it vital that we provide stability, and not let the tremendous impact of soaring costs on one hand and falling income on the other hand for the farmer——

Mr. DATT. I would agree with that. I don't know quite how you do it in terms of——

Senator PROXMIRE. We don't do it by relying on the market when the market is as erratic as it is, and the market which is as subject to the devastating inflation and falling prices as it is.

Mr. DATT. I think if you would look at the last 2 years in terms of a particular feed grain area, the market has——

Senator PROXMIRE. It terms of what, sir?

Mr. DATT. In terms of feed grain area, that the market has done very well in terms of providing satisfactory return to the farmers as relates to that particular area, sir.

Senator PROXMIRE. Let me ask Mr. Lewis, and I should tell the chairman that Mr. Lewis was my administrative assistant when I first came to the Senate 17 years ago. He is a tremendously able man, and I think he has in my view, he is as expert and comprehensive in understanding the farm problem as anybody I have known.

He is a man with a super farm background. Mr. Lewis, you have called for a 90 percent to 110 percent of parity, is that right?

Mr. LEWIS. Yes; we recommended a program of nonrecourse commodity loans for storable commodities at 90 percent of parity, with a minimum resale price of any stocks acquired by the Government at 110 percent of parity.

Also, a new import control system which woud prevent imported commodities from entering our market as less than 110 percent of parity, and a provision that reserve stocks should be kept in loan status under the farmers' ownership and control with the loans extended from year-to-year, and with the Government paying the interest and storage costs so long as prices remain below parity.

This would provide stable and ample farm prices, and maintain adequate reserves. We propose that Congress legislate what the reserve level should be that is required in the national interest.

Senator PROXMIRE. What is your answer to the charge that that would be very costly and burdensome and would have a great impact on the budget?

Mr. LEWIS. Mr. Chairman, I think it would be a great bargain. I think that we need to look not only at the impact on the Federal budget, but the impact upon everybody's budget—consumers and the national interest, and so on.

The cost of the boom and bust agricultural policy of the last few years has been enormous. The cost in terms of wasted resources, in terms of losses to dairy farmers, for example, who have gone broke trying to pay feed bills, and all the rest of it has been very disastrous.

Senator PROXMIRE. Would you contend that that kind of policy would tend to stabilize farm prices, that they would not go as high as they have gone, or as low, and therefore the consumer would get a bargain?

Mr. LEWIS. That is right. We would provide an ample supply of food to consumers at a fair and stable price.

Senator PROXMIRE. You talk about opening up the markets by expanding our exports to developing countries. I think all of us would like to see that done from the standpoint of justice. That certainly is most appealing.

But, how, from a practical standpoint, can we achieve that? That seems to me to be about as difficult a problem today as it ever has been, in view of the devastating effects of the quadrupling of oil prices on them, and the fact that they have been deficient in resources.

How can we do this? You have called for reducing our tariffs on labor-intensive commodities and buying more of them. That raises a very difficult question when we have unemployment at almost 9 percent in this country.

Mr. LEWIS. Senator Proxmire, in other parts of my prepared statement which I have submitted, we also proposed that we put the 10 percent of our people in our labor force who now do not have jobs to work to useful public works.

We need to overhaul and rebuild our rail system in this country. The present condition of our railroad system is a disaster, and we need to spruce it up, and we could put a million people to work for a long time getting our railroads back in shape.

We need to improve our timber stand on publicly owned lands. When I was in the Department of Agriculture about 10 years ago, we calculated that we could employ a million men for a year on timber stand improvement work in publicly owned forests, all of which would return two or three times the investment costs plus interest by the time the timber crops were harvested.

So we need a full employment program in this country, and then we need to have a much more generous and imaginative and creative adjustment assistance program to accommodate increased imports from the people who need a chance to sell their goods in order to exchange for our food.

We also need to earn foreign exchange to pay our import bills, not only for petroleum, but potentially, for bauxite and many other raw materials, some 20 to 30 of which we cannot supply, but which we must have in our own economy.

Senator PROXMIRE. Let me just conclude by asking you, if part of our problem could be solved by a capital budget which will enable us to regionalize the longer term benefits of investment in the farm area, but also specifically where you talk about the timber resources and that a million people could be employed in that area, you say, would, over a relatively short time, but certainly more than a year or two, would bring in more than it would cost.

Obviously, if we have a budget which is limited, as this one is, and we are under great difficulty now because we are compelled under the Budget Reform Act, as you know, to achieve a very tight limit on this, and to do that without a capital budget it seems to me is just about impossible.

Mr. LEWIS. Senator, I think a capital budget would enable us to see reality, which we are not now able to see. When we talk about investments in our future as being a current cost, no business can operate that way, and I do not think the Federal Government can.

So, I am all for the capital budget approach.

Senator PROXMIRE. My time is up.

Chairman HUMPHREY. Thank you.

Congressman Long.

Representative LONG. Thank you, Mr. Chairman.

Mr. Carpenter, following your statement, as Senator Humphrey said, it certainly portends dire consequences. It appears to me that you say the Secretary of Agriculture encourages farmers, as he has been, in the last few months to expand production, that to carry that to its logical conclusion, assuming your conclusions are correct, then the American farmer basically is being misled into making a larger investment in crops this year, but with the present loan rate and the present target levels that we have, they are not going to protect him if we do have the bumper crop that the Secretary of Agriculture is predicting and also encouraging us to produce; that the necessary conclusion is that we are leading an awful lot of farmers into a bankrupt type of situation.

Is that correct?

Mr. CARPENTER. Well, Congressman, I think we are, and let me say that just last week I visited with the agricultural agent for a rather large bank in central Missouri. His job is to make agricultural loans.

At that time, he had made one loan, and he customarily has made many loans during a crop year. And I asked him, "Well, Don, would it make any difference to you in making a loan, if the loan price on corn was $1.10 or $1.87?"

He answered quite affirmatively that it would make a difference.

Congressman, they are even encountering difficulty in securing adequate finances to do this years planting from one fence to the other.

Yet, the price of grain has gone down and down and down and down. Now, what other viewpoint can we take unless we have some type of protection?

I think we are headed for disaster, and I am not necessarily a prophet of gloom and doom, but I have been talking to farmers.

This dairy meeting that I told you about—there were about 220 people there—and they were about as discouraged as any group of people I tave talked to since way back almost in the Depression Era.

Representative LONG. Let me ask you a question that has always intrigued me. I grew up on a farm. In spite of your predictions, you stated in your statement that either last week or the week before last you went out and bought your seed corn. How come?

Mr. CARPENTER. Well, I have land out there. I have a tenant on the place. He needs a living of some kind. I am paying taxes on the land. What you do other than run that opportunity for a crop—now, very frankly, I have been working for the farm legislation up here, and I am looking forward, frankly, to there being a loan price that will give me a market price than I can get out on.

Representative LONG. Also, you are of the view that with the weather conditions being as bad as they are, you might realistically get a higher price than we are presently getting for grain?

Mr. CARPENTER. That is a possibility, but I am not overexuberant about that, because the weather is bad now and the grain price is still going down. It does not make sense.

In Farmers Company Export, we do not have nearly the foreign demand today as we have had any time since that elevator has been in existence for the past 10 years.

Representative LONG. Mr. Datt, as long as we are what has been described here as, I think correctly, the "end of the world food whip," it doesn't seem to me there is going to be any question but that we are going to see a continuation of a fluctuation in price, and a sharp fluctuation mostly for reasons usually beyond our own control as we saw in the Russian grain deal and as we have seen in a number of other circumstances.

What would be your views as to whether or not we should impose, perhaps at the very least, an export monitoring system and a reporting mechanism within the Department of Agriculture that would be available to all farmers and traders as quickly as possible?

This is of great concern to me, because I represent a great many fairly substantial sized farms. I didn't like the grain deal at all, particularly when the grain dealers made profits off of it and the farmers did not in many instances. Would not this keep that situation from being as likely to happen if we did have this type of mechanism established?

Mr. DATT. Let me answer your question this way: I guess part of it has to do with your definition. The Farm Bureau has, and does still, support the idea that we should have available the best information as to what is going on in terms of international trade, and farm export. But what we have objected to, and do object to today, is the Department invoking embargoes, having to get clearance in advance of exports and this sort of thing. If you look at the situation, as Mr. Carpenter indicated, I think the Department of Agriculture and the Farm Bureau and others who are involved in this, that the biggest job we are going to have in the next year is going to be to try to sell, and get back some of the export markets we have lost.

We are going to have to try to get back into the business of exporting, because it is potentially a tough year; other people are back in the grain markets, and so our concern is not some sort of an export control system here. It is whether we are really going to have the export markets that we have. We are going to have to get out and start going to work to find them again.

Representative LONG. I wasn't speaking of a control system with respect to this particular situation. I was speaking of a reporting mechanism whereby we would know what was going on all of the time.

Mr. DATT. We have not objected to that. I guess it is a definition of what you—we have not objected to that kind of system, and would support it.

Representative LONG. I am not extending the definition to a control-type situation.

Mr. DATT. We would find little difficulty; and in fact have supported that type of system. Where we are opposed to the system is where it would involve some type of controls.

Representative LONG. Mr. Cochrane had in his testimony reference to the yearly report put out by the Department of Agriculture. He suggested that it be made four times a year, or even on a monthly basis. What would be your view on this?

Mr. DATT. We would be for the maximum amount of information available. As you recall, Senator Humphrey, we discussed this with you——

Chairman HUMPHREY. Yes.

Mr. DATT [continuing]. At the time of the farm bill, I guess, and part of it is a definition as to what you mean by monitoring and as to just how far that goes.

Chairman HUMPHREY. I think what we are all saying here is that this business of slapping on an embargo is destructive of trade patterns. Second, it is the sort of thing that happened this past year, where the arrangement was made with respect to the selling of some wheat and corn and then it was canceled out and called back. Then, subsequently it was said that the only way you could make a sale above a certain amount was to come and get prior approval.

I think that is what your opposition is essentially directed toward.

Mr. DATT. Yes; we are opposed to that. All I am saying is that if the export situation has changed during the last 3 or 4 months, now, rather than be concerned about some of those things, we have to get out and start working again to maintain some of the export markets that we have.

Chairman HUMPHREY. Well, we are not going to keep you much longer. We are very grateful for your testimony today. I have been very concerned about the kind of hit-and-miss export policy that we have had. My only concern on export policy is in case we do have severe shortages. I would like to see some kind of protective mechanism to prevent another country from playing the market against us, so to speak, on the one hand, and second, getting, or buying in so fast that our traditional customers are cut out.

I think that there are long-term customers of the American farmer that ought to be assured of a supply, and therefore the night raiders that come in ought to be at least watched a bit if there is a short supply situation. Not only watched, but I think there ought to be a policy then to make sure that the supply is not taken up by, let us say, a country that was not ordinarily an importer of American commodities.

I notice, of course, that the policy of the Farm Bureau has not changed when it comes to reserves.

Mr. DATT. That is correct.

Chairman HUMPHREY. You have listened to the testimony today of Mr. Cochrane and Mr. Gale Johnson. I am not going to argue the point. This is one that we have gone over time after time. It has always appeared to me that the best assurance for continuity of a good export policy is a good reserve. The problem has always been, "How do you proceed so that a reserve does not depress the market price?" and it is my judgment, of course, as you have heard me say before, that that can be established.

As a matter of fact, in the present farm bill that is in the Senate, I added an extra 8 months on the loans so that the farmer could hold his crop a little longer, into a second marketing season, thereby giving him a chance to have a reserve on the one hand in his own hands, and secondly, to take advantage of a better market price on the other.

I hope you will all help us to get that, even though I keep hearing that the President is going to veto it anyway.

We did not hear too much about the livestock industry in any of your comments here. For example, Mr. Carpenter, the exhibits that you had were very revealing, these cost and price exhibits. You made the point that higher grain loans could stave off asset deterioration this year for grain farmers. Yet, the hog and beef producers, you cited, suffered a very sharp decline in net worth in 1974, and apparently these declines continue to take place.

What are some of the steps that you believe we can take to both stabilize livestock prices and hopefully restore some economic health to the livestock industry? Do you have any suggestions?

Mr. CARPENTER. Mr. Chairman, we have a couple of suggestions. One of the proposals now before the Congress is the desirability of the purchase of some of the meat products, and being able to redistribute those to either some countries who are in dire need of them, or even in our own country. I want to join you, Mr. Chairman, and say that I was very discouraged there was no mention of food as being a help in the area of peace or as a deterrent to war.

I cannot believe but what that is one of the great advantages that we have.

The other one that we have advocated, and I will be very frank that the mechanism to do it would be difficult to do, but we have advocated the possibility of a target price and a loan price on feeder cattle under 500 pounds at the first point of sale.

Now, the thing that makes it difficult is that there are so many different qualities and grades, that it would be difficult to make that work. I do not think it would be, or, unusually expensive. but it would be some expense to the Government. But that is the only thing. We keep saying that we have to eat ourselves out of trouble. I do not know whether we are going to get it done or not.

Chairman HUMPHREY. Mr. Datt and Mr. Lewis, do you have any comments on that?

Mr. DATT. I think you are right. Senator Humphrey. We are having troubles in feed grains. but their troubles in comparison to what livestock has been through in the last 18 months or 2 years are quite different.

I guess we were particularly shocked that we still saw the number of livestock we had on hand last January. We thought we had been moving these cattle out.

Chairman HUMPHREY. Yes, apparently that high level will continue for another year or so.

Mr. DATT. Yes, because of the livestock cycle, it is almost built in as a part of that.

I guess the major thing we have been working with, and worked on with members of the Senate, is to see whether we can extend the credit program that was passed by the Congress, and see whether there is a way that it can be possibly expanded to be of some assistance to the livestock industry.

That would seem to be our major suggestion.

Chairman HUMPHREY. Mr. Lewis, do you have any comment?

Mr. LEWIS. Yes, Mr. Chairman. We have recommended, as one measure, that bonus food stamps be issued at no cost to recipients of food stamps that could be redeemed for the purchase of meat, and probably any other products that might from time to time come into a surplus situation. This would enable people who most need better nutrition in our own population to eat up some of our meat surplus.

Now, our feeling is that livestock might be supported effectively by direct payments against the target price objective, for example, at the point of slaughter. This does, as I acknowledge, require very careful thinking through, but payments paid on sales of cattle for slaughter would permit the use of an incentive to encourage producers to sell at relatively lighter weights, and this also might speed up eating our way through the surplus that we now have of beef.

Chairman HUMPHREY. All right. I have had just one other question.

Mr. Datt, I was interested in your international monetary food fund. This is a novel proposal and one that we ought to take seriously.

It is designed to purchase food on open markets when needed for famine. But it raised a couple of questions that our staff brought to my attention, and I want to bring it to your attention. How could we encourage nations, for example, like India or the Soviet Union, to contribute funds which would not be retained under their own control? For example, they might be used to provide famine relief to Pakistan. Can you imagine India doing that, or to South Korea; can you imagine the Soviets doing that?

Mr. DATT. Well, obviously there are a number of problems, and with an idea like this, one can raise more problems than you can think of. We don't approach it that way. We approach it from the standpoint that it is an idea worth exploring.

We have the oil countries that have substantial money, and who have a very limited food supply available. We view this as one of the ways in terms of their making a contribution to the other needy people of the world through this international monetary food fund.

We are exploring this as part of the United Nations or through maybe Public Law 480. It is more an idea that we are exploring at the moment, Senator, as a way to go. I can't give you all the answers to questions.

Chairman HUMPHREY. No; I understand that, and don't misunderstand me. I think your proposal has merit. As a matter of fact, at the World Food Conference there was discussion, as you may recall, as to how you could best bring OPEC country contributions into a kind of a world food fund, because while we may have the supply, it is not necessary that we put up all the cost.

There surely is a need of some sharing, particularly due to the fact that one of the reasons some of these less developed countries are in serious trouble today is from the high cost of fuel and fertilizer, which is directly due to the increase in the cost of crude oil from the OPEC countries.

So we pushed very hard as a nation, or as a government, at the World Food Conference, to get some sharing of costs.

Now, that is still under consideration, as you know. This is still in the discussion stage at the most recent meeting on food policy, the international food policy. So I recognize that there are all these problems with respect to these matters, but I commend you for giving us another proposal as to what we might do in reference to famine emergencies.

Well, gentlemen, I gather that there are obviously differences of view on how we ought to approach these problems between your respective organizations.

What is your outlook? Just take a minute or two apiece here. What is your outlook for agriculture this year as you read the reports and as you visit in the field?

Senator PROXMIRE. Would the chairman yield for a moment? That is a good wrapup question.

Chairman HUMPHREY. Yes.

Senator PROXMIRE. I would like to ask Mr. Lewis and the other men to comment if they would: What are we going to do about the dumping of agricultural products in this country when they are subsidized, as they clearly are, as in the case of cheese from Europe for example.

They subsidize exports. We have a countervailing duty provision in the law that requires us to collect a tax. The administration refuses to do it. We lost $26 million last year because they failed to do it.

Can you, any of you, suggest a more effective way to protect the dairy industry without needlessly pushing up consumer prices?

Mr. Lewis?

Mr. LEWIS. Well, the countervailing duty question is still being hassled, but that is not a solution to the problem, because if we apply countervailing duties against the Europeans, we will perhaps price their product out of our market. But it will nevertheless be subsidized into other third-country markets in Latin America, in Japan, and elsewhere around the world, and there it will displace New Zealand butter and cheese and dried milk into our market, and New Zealand products are not subsidized, so we will have to face unsubidized competition from their products which have been displaced into our market by subsidized competition.

Senator PROXMIRE. What is the answer?

Mr. LEWIS. We propose that a variable duty system be adopted under which a duty, a rate of duty equal to the difference between 110 percent of the domestic parity price and the world market price be levied against all imports.

This would protect domestic producers against import competition, while prices are below parity, allowing a small safety of 10 percent above parity, but it would assure consumers of access to unlimited imports at prices moderately above parity, when such prices signal that the U.S. supply is actually short.

We think that this would solve the problem automatically and more smoothly and on a more efficient operating basis than the present section 22 quantitative restrictions or quotas.

Senator PROXMIRE. Mr. Datt?

Mr. DATT. As far as I am concerned, we were one of the leading advocates in trying to get the countervailing duty provision, and you referred to the particular cheese case. We are still working on it, and we are hopeful that the outcome on that will be favorable.

I do not know how you direct the administration and tell them, and one thing and another. I guess you keep doing it as far as Congress is concerned, hoping that some day they will take the action that you direct them to do.

We are hopeful in the particular one that you mentioned that there will be countervailing duties.

Senator PROXMIRE. Mr. Carpenter?

Mr. CARPENTER. Senator, we feel now we have a quota system that, if effectively used, would help this situation considerably, but apparently the administration does not see fit to use it. It may be desirable for you folks to enact legislation to make it be used.

I read on my way up here the second largest dairy cooperative in the United States lost just a few dollars less than $8 million last year, and they attributed it in its entirety to foreign imports which had undercut their prices.

Chairman HUMPHREY. I want to say to Senator Proxmire that while I was in Brussels about a week ago, I took this matter up with Joseph Greenwald, our Ambassador there, with respect to the trade negotiations. I know that you and Senator Nelson and Senator Mondale and others have been pressing on this problem of subsidized exports in the U.S. market. The countervailing duty is what we put into the law to try to take care of that.

I just use this occasion to tell the administration once again that we expect some action. There has been such reluctance on the part of the Government to deal fairly with our domestic producers in these dairy products. I do believe that the importation of large quantities of dairy products has had as much adverse effect on dairy income as any one thing that I can think of. It is quite obvious that we are going to have a difficult time, including dairy price supports, and hopefully we can get quarterly adjustments of the parity, of the price support level, and if we can get some help on imports, some restrictions on those, we will maybe be a little better off.

Now, my final question, and I just ask you to give me your outlook.

Mr. Carpenter, what do you think is the outlook for agriculture in this coming year?

Mr. CARPENTER. Senator Humphrey, this is based entirely on what I hear farmers say. They are less than optimistic about 1975. It is true that some meetings are being held in which they themselves are talking seriously about a 10 or 20 percent cutback. I have not attended any of them. I have had staff people there.

Chairman HUMPHREY. I have attended some, and believe me, they are very outspoken.

Mr. CARPENTER. They are talking in earnest. They are as much concerned about their future in 1975, almost as much as they were back in the depths of the Depression, wondering whether they were going to keep their farms or not.

I can only hope that the weatherman is good to us, and if he is, maybe we will come out with a profit.

My second hope is that the agricultural proposal that is before both bodies is agreed on next week and passed next week. I can tell you, and I do not think this is a trade secret: At this time last year, all our plant food facilities, people were begging for plant food. We were scrounging around every place to get seed corn and seed beans.

Gentlemen, today, the stuff is running out our ears, and it is not being used yet, and this is the 11th day of April. This approaches the time that people ought to be in the planting season.

Now, I must admit that climatic conditions have not been conducive to this particularly, but generally they have made their arrangements, and have made advance purchases, and they are not doing it this year. So that is not a good picture, Mr. Chairman, but that is what is happening.

Chairman HUMPHREY. Yes, sir.

Mr. Datt.

Mr. DATT. I spent a great deal of time during January and February and the first part of March out in the country in terms of farm meetings. I continued to be out there in the last couple of weeks, but not as much as I had earlier.

I think I would describe the attitude of our farmers, our farm people, as one of cautious optimism. They are not as optimistic as they were a year ago. We discussed earlier in terms of the Secretary of Agriculture calling for all-out production. I find our farm people and the farmers I have talked with are taking a pretty hard look at, you know, what is their option, what are their alternatives from a cost standpoint, and what is the optimum that they ought to be operating from their potential income.

I guess what you could say, Senator Humphrey, is that they are kind of taking a hard look as to where they are, and they are not automatically going to go out here and produce from fence row to fence row unless they can see a reasonable chance to come out.

They are taking a lot harder look at things than they did a year ago, but they are still optimistic, because this is the attitude of farm people, as you know from working with them all your life.

Chairman HUMPHREY. Particularly when spring comes.

Mr. DATT. Yes. So I would say the attitude of our people is cautious optimism in the next couple of years.

Chairman HUMPHREY. Mr. Lewis.

Mr. LEWIS. If there are good crops in 1975 and if the world continues in a depressed economic state, as it is now, and threatens to worsen, then I think we can have a disastrous farm price crash in the United States that would wreck many highly efficient family farm operations.

On the other hand, if we have weather as bad as 1974 or 1972, we can have a disaster, a disastrous food shortage in this world, and it could impinge severely against American consumers.

I think that is just about the way a lot of farmers size it up. The kind of farmers who come to meetings are usually community leaders, who are generally more successful and more prosperous than those who stay home; I have never seen the farmers coming to meetings more genuinely afraid of the future.

Chairman HUMPHREY. Mr. Lewis, I find that to be absolutely the case, and I sense among all three of you here this deep concern that you have seen out in the countryside.

I have been home to my home State, and have gone out to these farm meetings. Not all of them are congressional delegations to cover the whole area. We had a meeting of the Minnesota congressional delegation of both parties just the other day, and we had a report from each one, except the two urban Congressmen from the Fourth and Fifth Districts. They all cited a growing concern among the rural people, and also the large number of people in attendance at these meetings.

Our meetings are all around the principle of the 10-percent cutback in production, with a sort of bitterness about the failure of Government policy to be related to what they think are their needs. If you are out there as a Senator that has been a lifelong friend to the farm people, at least he thought he was, and most of the time he was given that credit, you all at once find yourself on the defensive, because they are angry with you as well as, "What are you doing? Why hasn't more been done?"

The other thing I found out was the number of country bankers who are concerned. This isn't a meeting of a bunch of militant radicals. These are top farmers of the countryside, members of the Farm Bureau, in our country the Farmers' Union, the dairy cooperatives. They are up there, some of the most respected, conservative farmers that we have, as we say, "solid people," and they are in there, and they are as mad as all getout.

I remember the Depression days when the people that really led the farmers' revolt were not some farmers that had themselves 10 acres off here and never made a dime. The leading farm organizer in my part of the country was a fellow by the name of Hanson, who was a pillar in the Lutheran church, and who was one of the most prosperous farmers that we had in there in the 1920's. He was out there leading the parade right down to Campbell Park in 1934. I remember the farmers going down the street with pitchforks and rakes in their hands.

I remember a few hangings. Do you gentlemen remember? You are too young, Bob.

Mr. LEWIS. I remember.

Chairman HUMPHREY. It did not take place in Brooklyn. It was in Minnesota, and they may have had one or two in Missouri. They were Federal judges. I hope that doesn't happen again.

There is this worry and this concern, and I want to say, Mr. Lewis, that I think you put your finger on what the possibilities are. You get a bad crop, and you are going to have a terrible situation, possibly, which will drive prices up to the consumer and the American farmer will not have produced enough so that he gets the full benefit of it.

If you have a big crop with your livestock consumption down on feed grains, I can foresee the prices of corn and other feed grains going down, down, down, down, unless you have some kind of a purchase program or a reserve program.

That is it. We have to go. Thank you, gentlemen, very much.

The committee stands recessed.

[Whereupon, at 12:40 p.m., the committee recessed, to reconvene at 9:30 a.m., Friday, April 25, 1975.]

THE AGRICULTURAL SITUATION

FRIDAY, APRIL 25, 1975

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 9:40 a.m., in room 1114, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Proxmire, and Percy; and Representatives Brown of Michigan and Rousselot.

Also present: Loughlin F. McHugh, Carl V. Sears, and George R. Tyler, professional staff members; Michael J. Runde, administrative assistant; Leslie J. Bander, minority economist; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. I call the hearing to order.

We are very fortunate today to have as our witnesses today the distinguished Secretary of Agriculture, Earl Butz and members of his staff that will be presented; we also have the commissioner of agriculture of Minnesota; the secretary of agriculture of South Dakota, and the secretary of agriculture from Pennsylvania.

This is a part of our hearings on developments of the American economy. As I was saying to Secretary Butz and Mr. Paarlberg a moment ago, in the past we have not, I think, placed proper emphasis in the work of the Joint Economic Committee on the vital importance of the agricultural sector to the total American economy. It appears to me that if we are going to make any analysis of either the Federal budget and its relationship to the economy, or the overall analysis of economic conditions, we need to have some better input from the Department of Agriculture.

We are not here today to discuss particular agricultural programs as such; there is a legislative committee that does that. I have a short statement, and I am going to abbreviate it. Secretary Butz must leave here for a White House meeting this morning, and we will adjust our time accordingly so that we can complete the testimony of the Secretary, and then proceed to the testimony of others.

As we all know, the Goevrnment has called upon American farmers to plant and to grow maximum agricultural production. Yet, we have heard just 2 weeks ago that in many parts of the country, farmers are doing just the opposite, they are hesitant to go all out. We were told by witnesses here, Mr. Cochrane and two or three other witnesses, that the drop in farm prices and the optimistic USDA planting projections have frightened farmers; they are worried about overproduction with its adverse effect upon prices. This reluctance, of course, is due in part to the unprecedented gyrations experienced in our agriculture markets over the past 3 or 4 years. Per capita farm income has varied from $4,800 to $2,600. Farm prices have been on a roller coaster, fluctuating by more than 300 percent.

Our farmers have been subject to price and income instability which no other industry could tolerate in its efforts to conduct reasonable corporate planning and operations.

Adding to this reluctance to plant all out is the reality that farm prices have now fallen 15 percent or more in the last year while production costs have soared a spectacular 20 percent.

As a result, there is a great deal of uncertainty and even fear of large plantings on the part of the farmers.

So, to back up the administration's call for maximum production, Congress last Tuesday passed the emergency farm bill. It was designed for one purpose and one purpose only, to stimulate the all-out agriculture production necessary to stabilize supermarket prices, to refill our empty storage bins, and more importantly to provide some income security to our farm producers, as well as to meet our humanitarian food aid obligations. It is the judgment of the vast majority of the Congress that this legislation will do just these things.

President Ford at this very moment is deliberating whether to sign this legislation. In the midst of the spring planting season, a veto will have a disastrous impact on production. Marginal acreage may not be planted, and we may not have the badly needed good crop; we will see a renewal of rising supermarket prices.

Now, there are press reports that the President will raise price supports administratively. I would appreciate any commentary that you from the Department may have on that, if the farm bill is vetoed. In other words, are there other alternatives over and beyond what has been proposed in the legislation? Frankly, I hope that there are. Neither Congress nor the President should claim credit alone for what should be a joint effort to encourage the best economic conditions in our agricultural sector.

The committee is pleased to have Secretary Butz with us today. I believe, Mr. Secretary, this may be your first appearance before the Joint Economic Committee this year.

So, we are here today to hear your views on where we are, where we are going, how you see the economic outlook, Mr. Secretary, what plans you have in light of our current conditions in agriculture; what plans you have for maintenance of income, or assurance of some kind of reasonable farm income.

With that, sir, please proceed. I understand that you would like to summarize your prepared statement, Mr. Secretary, and if you do so, we will include the entire text in the record.

STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE, ACCOMPANIED BY DON PAARLBERG, DIRECTOR, AGRICULTURAL ECONOMICS; AND R. STANLEY HARSH, ACTING GENERAL COUNSEL

Secretary Butz. Thank you very much, Mr. Chairman. I do have a rather lengthy prepared statement that may be placed in the record.

May I congratulate you for giving agriculture a place in these hearings on the Joint Economic Committee; it is a very important sector of the American economy. It has now become our No. 1 source of foreign exchange, which elevates it to the front burner as a factor in the economics of America.

What I would like to summarize very briefly is where we are in American agriculture, and some of the prospects in the year ahead. I think there are two principal keys to the outlook for American agriculture. One is the general economic conditions both at home and abroad that will affect our market, and second, of course, the prospects for the 1975 crop production that you touched on already.

I think it is obvious to everybody that agriculture, as the rest of the economy, has been injured by high energy costs; it has run our cost of production up, and on top of that we had a particularly bad year in 1974 that distorted much of American agriculture. It was one of the worst years in 30 years. We had wet weather to start with that delayed planting; we had the driest summer in mid-America we have had since 1936; and then we had the early frosts. The chances of that occurring again are extremely remote. But nevertheless, it did affect our agricultural outlook; it affected our exports. It brought about modified export control for a while, which was extremely unfortunate; I hope we don't have a repeat of that again.

As a result of that we had gyrating markets. We had high prices early in the season for corn and for wheat, with those prices slacking off substantially in recent months. We had a severe impact on our livestock numbers, on feeding patterns, that I will detail in just a moment as we go through. It caused a substantial decline in cattle feeding; it caused a shift in the character of the beef that we have, a shift toward grass-fed beef and less finished beef than we have been used to in this country. At the current time there has been a rather substantial cutback in poultry and hog numbers.

Now, looking ahead, we see these reductions in production in livestock production as primarily temporary factors. If we get a good feed grain crop again in 1975, we should see a reversal back toward the normal pattern of livestock production and feeding, and marketing in this country. I think I have to say that a large grain crop is the first prerequisite for a turnaround in the livestock industry at the present time. The same thing holds true for our exports. We are at a high level of agricultural exports and we want to stay at a high level of agricultural exports; but we can't export it if we don't have it. And I think for that reason again, the size of the 1975 production is of critical importance.

Unfortunately, we got into some export monitoring, and that may have had an adverse impact on the price of some grain products when the U.S.S.R. came in our market last fall with very heavy purchases, heavier than we had anticipated, heavier than we had been led to believe. And we had to impose rather quickly some controls on exports; following that we had a system of prior approval of any export of grain in excess of 50,000 tons. We did this with some reluctance; this was interference with the export market. Farmers were justly perturbed at the time we did this and were perturbed when we kept those controls on as long as we did.

They have been removed now for several months. I don't know how much impact those controls had on the price of grain, especially wheat and corn and soybeans; I know they had some impact. I doubt they had as much impact as was generally believed. However, I hope we won't have to do that again. We won't have to do it again if we have the kind of large production we anticipate in 1975.

Chairman HUMPHREY. All these temporary controls are off now?

Secretary BUTZ. Yes, sir, they are all off. We still have the monitoring system with reporting that is required.

Chairman HUMPHREY. Required by law?

Secretary BUTZ. Yes, sir, which would enable us, again, to protect ourselves against a sudden raid on our market as we had last year. These controls are all off.

Mr. Chairman, we have a job in maintaining our credibility among foreign purchasers as a dependable supplier of grains. The interruption we had with our soybean exports 2 years ago ruptured that credibility rather seriously. I think it was further disturbed by our quasi-control we had on exports last fall. We are working hard to establish the fact that we do want to be a credible supplier in the international grain markets of the world.

Chairman HUMPHREY. I think it should be said at this point that in the legislative committee, there is general agreement with you on the matter of no export controls, at least if it can be humanly avoided in any way; that if it possibly can be avoided, we should keep this export market free and unimpaired.

Secretary BUTZ. Yes; and I appreciate the attitude of the committee of which Senator Talmadge is chairman; they have a very firm attitude on that. On the other hand, Mr. Chairman, as you well know, when our economy gets into a short supply situation, our price tends to adjust the livestock requirements for feed to the supply, and that is true of our customers overseas; they have relatively free prices. And when you get a political decision to maintain livestock at a constant level and made no adjustments, when that kind of purchase comes against our free price structure, it doesn't mesh, and that is precisely what happened last fall. We simply had to blow the whistle on that, and I hope we won't have to do it again.

But overseas markets have become a substantial share of American agriculture. Last year nearly one-third of our crop acres went to serve the foreign market; that is a little higher than normal, I think. But our exports last year, ending June 30 a year ago, totaled $21.3 billion; in the current year, ending June 30, 1975, they will total something like $22 billion. We will have a little less total volume exported but at higher unit prices per bushel, or per ton, or per bale. So we are going to have over $22 billion of foreign exports this year. That is our No. 1 source of foreign exchange.

And when you deduct the price, the cost of imported agricultural commodities; that is, sugar, coffee, tea, rubber, and that type of thing, we have a net plus contribution to America's balance of trade of $11 billion, which I think is a wonderful contribution that American agriculture makes to our balance of trade. It will pay for imported energy, for example, and a wider range of imported goods. I see a Nikon camera pointed at me right here; I see a Sony recorder in front of me. We didn't pay for them with Japanese yen; we don't print Japanese yen; we paid for it in Minnesota soybeans and wheat. That is a pretty good deal, I think, to have that kind of exchange.

But to move on now, what is happening to our farm income? We are going to have a decline in farm income in 1975. We reached our record high in net farm income in 1973 with a figure of over $32 billion. Now, this was a very substantial jump and came because cost had not yet caught up with higher selling prices that farmers received for 1972 and 1973 production. In 1974, costs began to catch up, and that income dropped off to approximately $27 billion; it will drop off further in 1975. It is too early in 1975 to make an accurate prediction on how much it will drop off, but the figure will probably be in the neighborhood of $20 billion for 1975.

Now, that is down substantially from 2 years ago, and it is down substantially from last year. It will be, however, the third highest net farm income we have ever had, the previous high having been $17.5 billion in 1972. In all fairness, though, I think we must point out that the purchasing power of the 1975 dollars of net farm income will not be as high as the purchasing power of the 1972 net farm income dollar was because of inflation.

The net I cite here is after all production costs, that is what the farmer's family has available then for savings, or investments, or personal expenditures. But even so, the net purchasing power of that in terms of a refrigerator, or an automobile, or a suit of clothes will be down simply because of the inflationary factor. So, I want to point out that even though it will be the third highest net farm income, it will not necessarily be the third highest purchasing power that our farm community has had.

Now, then, this decline in 1975 will be primarily because of increasing costs, and I think this points out, Mr. Chairman, the importance of bringing inflation under control. I know this committee has addressed itself to that problem a great deal. Some people think, and I have had it said to me, that the farmers really ought to be happy about inflation because then they get higher prices for their wheat or corn or soybeans, or whatever it may be. But I think the events in the past few months have clearly demonstrated, as you have pointed out, that the farmer is on a roller-coaster market; they are up and down. The price of wheat is down $1 to $1.50 from the high it reached, the same for the price of corn and beans; the price of cattle a year and a half ago was $60 a hundredweight; today it's $41, down a third.

But the costs go up and stay up, and that's how farmers get hurt by inflation. I have not seen any tractor dealers rushing out in recent weeks saying, "Look, the price of wheat has gone down, I'll knock $3,000 off this tractor." I have seen no combine dealer rushing out and saying, "I know this combine costs $27,000, but because the price of the things you sell is down, I'll knock off $3,000." I haven't seen that, and I think we are seeing right now the impact of inflation on our farmers. It is true, they are selling at higher prices than they did 3 or 4 years ago, but costs go up and stay up, and that is one of the reasons I'm glad that you and this committee address this very important problem of inflation, the No. 1 problem farmers face.

Now, then, other problems we face ahead; let me touch on one of them: the question of food costs. Food costs have been in the news in recent years, and they should have been in the news. In 1973 and 1974 the price of food in retail rose approximately 14 percent in each of those 2 years. However, for that 14-percent rise that occurred in 1974, 80 percent of that occurred after the food left the farm. If we had only had the rise that occurred at the farm level in 1974, food prices would have gone up approximately 2 to 3 percent instead of 14 percent.

I think increasingly we must address ourselves to these costs that occur after the food leaves the farm, and we are trying to do that in the Department of Agriculture. At the present time in our best estimate the farmers receive approximately 40 cents of the consumer food dollars; 2 or 3 years ago a farmer was getting 43 to 44 cents of a cussumer's food dollar; that is dropping as margins increase relatively.

Chairman HUMPHREY. Mr. Secretary, I should like you to know that we are conducting here, at the staff level and the full committee level an intensive study in this gap between what the farmer gets for his product, and what the consumer pays at the ultimate outlets. And we have had some work from people whom we consider to be knowledgeable in this area, we have subpenaed witnesses, and we have been getting—belatedly, I'll have to say—cooperation from the Federal Trade Commission, which has been slow in coming. I think we have been working with your Department, with your Economic Research Service.

Secretary BUTZ. Yes; you have.

Chairman HUMPHREY. And we will share those studies with the Department people when they are completed. We are hopefully going to get our work done, tidying up in the next few months. But it is a very difficult task to sort out these many pieces that go into that big segment that is called processing-transportation-handling-distribution-wholesaling-retailing of that food product. By the time it gets to the consumer, as you know, it goes through a lot of hands.

Secretary BUTZ. That's quite right, and there is a lot of emotion in that, too, and a lot of statements not based on facts. It is only 14 months ago that we had this scare on $1 a loaf of bread, which was as phony as a $3 bill, but it panicked people into stocking up flour, for example; just as we got panicked a few months ago into taking sugar off the supermarket shelves and hoarding it at home.

I think we have to look at nongovernmental as well as governmental institutions, the restrictive practices in labor-management contracts. We have to look at some of the regulations of the Interstate Commerce Commission which affects the backhaul, and raises transportation costs. I think they are over-regulated on the part of the Government. I have a very strong feeling we may be in the Department of Agriculture, and we are looking at that too. I think increasingly, all governmental regulations are having an impact on higher operating costs and on lower efficiency in the total distribution process.

Chairman HUMPHREY. We will be launching a major study this year, by this committee, on all matters relating to these regulatory agencies and the impact on the economy.

Secretary BUTZ. I am delighted, you will have our full cooperation.

Chairman HUMPHREY. We are working to get the ICC to get to do some of the things that it ought to do——

Secretary BUTZ. Or not to do some of the things it's doing.

Chairman HUMPHREY [continuing]. Or to stop some of the things that it is doing. I have given up, almost, on it. But we just met this morning, as a matter of fact, to go over some of our plans for the intensive study that we intend to make of these regulatory agencies, and regulations that affect our economy. This will be done not only by the committee; we intend to contract it out, so that we get a very objective analysis; and we will let the chips fall where they may.

Secretary BUTZ. I know there are some regulations in the Department of Agriculture, and I would like to be included in that study.

Chairman HUMPHREY. We will be over to see you.

Secretary BUTZ. Well, moving on, we have just a few words about livestock. Cattle, of course, are in trouble. Cattle prices have come up some in recent weeks. This is a part of the long-time cattle structure which was accentuated by the short feed supply last year. We have shifted our beef supply a great deal to nonfed beef. People have been afraid that we would have a shortage of meat supply in 1975. I want to assure you, there will be no shortage of meat for American consumers in 1975. We are going to eat approximately 5 pounds more beef in 1975 than last year's record of 117 pounds per person. We will have less pork in 1975 because we have cut down on our hogs in response to the shortage of corn supply last year; and a little less turkey, and a little less poultry. But our overall meat supply will be roughly the same as last year.

As you know, there are some awfully good buys in meat right now, the supermarkets are featuring good buys in beef, especially.

In the case of dairy, and this is important in your own home State of Minnesota, they have been hard hit by high feed costs especially. There is a substantial cash outlay for feed and for concentrate in dairy feeding. I think the prospects of a better feed suppy will result in some easing there. Dairy prices have improved some. As you know, we increased price supports last December, and again 2 or 3 weeks ago to bring up to date the changes in parity. Rather intensive discussions have been conducted on this matter of subsidized shipments of cheese to this country. You are fully aware of developments there; and I am happy to say that things have been resolved satisfactorily in the last day or two.

Chairman HUMPHREY. Yes; I understand yesterday we had some resolution of that.

Secretary BUTZ. That's correct.

Chairman HUMPHREY. On the subsidized products.

Secretary BUTZ. I know you were under considerable pressure from your home State of Minnesota to impose countervailing duties, and I would like to say just a word, if I may, about that. The legislation is clear that in the event we have subsidized shipments to this country that interfere with our own market, we must impose countervailing duties, and we are ready to do it. But we don't want to engage in a trade war with the European Community, and I think the resolution that was reached is very satisfactory. It could have injured us a great deal in access to our markets for feed grain, soybeans, tobacco, for citrus, and for turkey parts. We sent a good many turkey parts to the European Community, and you will probably recall the "chicken war" of a few years ago. I think this has all been resolved now.

Chairman HUMPHREY. I think it was handled well.

Secretary BUTZ. It took some patience.

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Chairman HUMPHREY. When I was in Brussels, Mr. Secretary, in November, we talked with Mr. Greenwald, our Ambassador there on trade policy; and I think the whole situation has been handled in a manner which will not bring retaliation. I appreciate it very, very much.

Secretary BUTZ. Well, I appreciate your statement, and I appreciate your support in the difficult time when we were negotiating.

Our farmers' intend to plant record size crops in 1975, the record is fairly clear on that. Just a little less corn acreage than last year; a little more grain acreage; soybeans will be up about 6 percent; winter wheat is up 6 percent, and the wheat crop is in pretty good condition; we are just 5 weeks away from beginning the harvest in the Southwest on that right now. We expect a record wheat crop this year, around 2 billion, maybe as much as 2.2 billion. We don't have a firm hold on the spring wheat yet. We think that the carryover a year from now will be increased somewhat from the carryover coming up June 30 and it should be. As you have pointed out yourself from time to time, the carryover is too low for comfort. Last year, the carryover was over 250 million bushels of old cut wheat; this year the carryover may be in that magnitude, just a little less maybe. It's too low for comfort. If we could have had a couple million bushels of carryover, I would not be uncomfortable with this. We need it both for this country and for the world, I think.

The same thing is true with corn. We are going to come out in this corn marketing year too low for comfort. We will have a carryover in the corn marketing season next October in the magnitude of perhaps a 6-week normal utilization in this country, and that is too low for comfort. It we should have a bad summer again this year, with a carryover this small, we would be in trouble.

So, I am very happy that our farmers are indicating a full production this year. And given normal weather, we ought to have a corn crop in the magnitude of 6 billion bushels. This will be a record crop. Last year was short, of course: we started around 4.8 billion bushels. But if we can realize a corn crop in the magnitude of 6 billion bushels, I think we will again rather quickly reverse the liquidation of livestock that has taken place, and get back to a normal livestock production pattern.

Chairman HUMPHREY. What was your estimate on beans?

Secretary BUTZ. The acreage is going to be up approximately 6 percent on soybeans.

Chairman HUMPHREY. You are taking it out on cotton?

Secretary BUTZ. It will primarily come out of cotton, maybe a little on corn. Again, you can't tell too much about the shift because so much depends on the planting season: if you get a little late you have to shift to corn. We expect about 1.5 billion in bean crop.

Our cotton farmers, of course, are experiencing low prices right now, primarily because of the textile market both here and abroad. Our cotton farmers indicated they would cut back their acreage this year by approximately 29 percent, which I think will be desirable, and that goes to soybeans because we do have a market on beans: we export around 45 percent of soybeans in this country. I think that is a desirable shift.

I will say just a word about tobacco. The tobacco acreage will be up this year by about 11 percent. We have had a growing market for tobacco at home, despite the campaign to cut down on smoking. Every time we advise to cut down on smoking, people apparently smoke more, and abroad, too.

Last year tobacco earned $1.1 billion in the foreign exchange. Most of us who come from nontobacco areas think that tobacco is a small crop, but it is not at all, it is a major contributor to our foreign exchange.

Chairman HUMPHREY. $1 billion?

Secretary BUTZ. $1.1 billion.

Chairman HUMPHREY. In export, foreign exchange?

Secretary BUTZ. That's correct. And as you know that is a very important crop in many of our Southeastern States. From the standpoint of foreign exchange it's a very important commodity, and we hope to continue that strong market. As a matter of fact, we have reduced our tobacco stocks over the last 2 or 3 years in this country; you have to have a 2- or 3-year aging process. We have taken the position that you can't export it if you don't have it. For each of the last 2 years we have increased the tobacco acreage, there will be an increase of about 10 or 15 percent this year and I think that has turned out to be a very wise decision.

So, just in the way of a quick summary, our foreign income this year will not be as good as the last 2 years; it will be better than any year prior to that. We have some substantial adjustments to make; we have to get our livestock back on track again, geared to a normal feed supply. We need some liquidation in cattle numbers; we had a big buildup in cattle numbers in recent years. In 1973 we had a buildup of cattle numbers to almost 6 million head in this country; in 1974 they built up by approximately 4 million head. There will be some further increase in 1975, but at a much lower level. This is the cattle cycle working, and I think in a year or two we will have that adjustment pretty well underway and beef cattle will be looking up again. We will continue to be a meat-eating nation, we will continue to be a beef-eating nation, and I want our agriculture to be geared to meet that need.

Not only that, Mr. Chairman, but we are now gearing up in cooperation with the Foreign Agricultural Service and the Cattlemen's Association, and the National Livestock Feeders' Association for promotion abroad of American meat, high-quality meat. I think there is a potential market in Japan; for example, their beef consumption is less than 8 pounds per capita per year. We think we can develop, through the years, a good export market for high-quality meat in some of these countries.

Mr. Chairman, I have given you a quick summary of my prepared statement, and I am sure there are comments and questions. I have with me Mr. Paarlberg, who directs our agricultural economics, and Mr. Stan Harsh, who is our Acting General Counsel.

Chairman HUMPHREY. Very good, Mr. Secretary, your prepared statement is very well documented, and we appreciate that we can have a chance to review it.

[The prepared statement of Secretary Butz follows:]

PREPARED STATEMENT OF HON. EARL L. BUTZ

Mr. Chairman and members of the committee. I am glad to accept your invitation to discuss the 1975 outlook for U.S. agriculture with the committee.

The two principal keys to the outlook for U.S. agriculture in 1975 are general economic conditions both at home and abroad and the size of the 1975 crop production.

You have already heard from a number of well-qualified witnesses on the general economic situation so I will not dwell on it. But let me point out that the oil price escalation has hurt both agriculture and the general economy. High energy costs will hinder economic recovery and put economic policy to its severest test in the postwar period.

Farmers' planting intentions this spring imply that with good weather we will get a record 1975 crop output. If we do, we can aqeduately meet the needs of domestic and foreign markets, barring significant shortfalls in the rest of the world. With good output, agriculture could thus be a major contributor to general price stabilization. But that would not ensure profitable returns to farmers. Substantial buildup in stocks would further push down farm prices at a time of rising production costs.

In the unlikely event that we get a rerun of last year's weather-reduced production, coupled with the low carryover stocks we will have going into the marketing season, there will be sharply higher prices for farm products, a renewal of the inflationary food price spiral next year, and continued reductions in our livestock inventory which could have repercussions for several years to come. However, it is hard to believe that we will have two successive bad-weather years—as bad as in 1974.

Through midyear, we know the markets will still be influenced by last year's poor grain production and its impact on grain-fed livestock. These considerations will help keep farm prices from bearing all the burden due to depressed economic conditions that have blunted the demand for farm goods.

Nevertheless, through midyear, average prices for crops will be lower than either the first or second half of last year. Prices will be subject to sharp fluctuations, though, depending on even small changes in use and the developing prospects for 1975 production.

The key factors for livestock production in the first half are low feed availability, high feed prices, and a record large cattle inventory. The prices for feed in relation to livestock are effectively rationing the reduced supply of feed. But in the process they are forcing painful adjustments in the livestock industry.

The record cattle inventory is the only remaining evidence of the recent expansion of the livestock and poultry feeding industries. And even in cattle there has been a drastic reduction in the number of cattle placed in feed lots—the fewest placements last year since 1965. Although there are plenty of cattle available for putting on feed, we don't envision any increase in placements during the first half of this year.

Hog and poultry producers have worked off their inventories. Hog farmers recently said they planned to continue the sharp reductions already underway in the number of sows farrowing. Poultry producers have already curtailed their output, but they can crank up in a hurry if we get a large feed grain crop this year.

These reductions in production have only recently resulted in some price recovery for livestock products, meaning a continuing pinch last winter due to high production costs.

What about the second half of 1975? Following the big jump in plantings last year, farmers are planning a slight further expansion in planted acreage of crops for harvest in 1975. Boosts in winter wheat plantings and soybean intentions are about offsetting a sharp reduction in intended acreage for cotton. If farmers carry out these plans and we have a return to more normal yields, we could easily end up with a record level of crop production this year.

A large grain crop is the first requisite for a turnaround in the fortunes of the livestock industry. It will let livestock feeders think about expansion instead of contraction. And it will assure good supplies of animals to serve as a source of meat for consumers and as a source of demand for feed grains. On the other hand, a repeat of 1974's poor crop performance, while it could mean more beef this year due to distress slaughter of herds, it would also mean a sharp reduction in the capacity to produce meat in coming years. So when the economy—and thus demand—is making the expected gains in 1976, we would be short on meat. And there would be fewer animals and a smaller potential demand for the 1976/77 grain crops.

The magnitude of 1975 crop production will also be a critical factor in our outlook for agricultural exports. For the first time in a quarter century, we have to face in our international agricultural trade the question of short supply.

It has caused some major adjustments in our traditional approach to agricultural trade. For example, last fall we were forced into using export monitoring systems to assure supplies at home and at the same time to meet as fully as possible the needs of our customers abroad. For years, management and disposal of surpluses had dominated our trade thinking. We have made the necessary changes without resorting to mandatory, across the board export controls. We have been able to keep our agricultural export trade alive and well. And with a recent easing in the grain supply-demand relationship we have been able to relax our monitoring activities.

Even with the adjustments and distortions, our export trade for the fiscal year ending in June 1975 is forecast to reach a new record high of $22 billion. While the volume of items shipped will be down, prices have averaged higher. About three-fourths of the export value will come from grains and feeds, for which exports are expected to reach $11.5 billion, and oilseeds and products, where the level should approach $5.4 billion.

The climate for U.S. exports in the year beginning July 1 will be affected not only by the size of our exportable supplies but also by the economic prospects in other countries. Several of our important trading partners face slow or negative growth rates. In addition, many countries are following tighter fiscal and monetary policies as a means of adjusting to higher oil prices. But we think our agricultural sales abroad will stay high if we have ample exportable supplies.

Overseas markets have become vitally important to U.S. farmers—in calendar 1974 they took about a third of all the commodities harvested on U.S. farms. These markets will continue to be important.

Perhaps never before have supply and demand developments both here and abroad had so big a potential impact on an upcoming crop's prices. Increased farm output with reduced demand could cause lower prices at a time when farmers' production costs are still rising. On the other hand, another poor crop year like 1974, coupled with the lower carryin stocks, would raise domestic prices and rekindle inflationary pressures. It would also likely mean a continued reduction in livestock inventories.

If we get the big increase in crop output that I expect, farmers' prices in general will average lower this year than in 1974. Livestock and product prices would hold up pretty well but crop prices would be down.

Livestock prices ran substantially lower in the first quarter but we expect them to average higher for the balance of the year. Prices for meat animals will average much the same in 1975 as in 1974 with higher prices for hogs offsetting lower prices for cattle. Poultry and eggs will likely average higher and milk prices much the same as in 1974.

Crop prices are expected to average lower than in 1974. All the crop groups except tobacco and commercial vegetables are expected to decline with food grains, cotton, potatoes and dry beans showing the largest declines.

All this adds up to lower cash receipts than the $95 billion estimated for 1974. Meanwhile, farm production expenses may rise a little higher; declines in outlays for purchased feed and feeder livestock may offset much of the increase in prices for inputs of non-farm origin. So farmers are faced with a substantial decline in realized net farm income, to around $20 billion. This would be down from the record high $32 billion in 1973 and the estimated $27 billion for 1974, but would still be the third highest net farm income on record. Since prices paid by farmers for goods and services used in family living have continued to increase, the drop in the purchasing power of net farm income would be even sharper than the drop in current dollar income.

The farm input supply situation has improved in the past year. Gasoline and diesel fuel inventories are both up and no shortages appear likely. Machinery manufacturers are slowly rebuilding inventories and farmers should have little trouble securing equipment. Supplies of baling wire and twine are adequate. Phosphate and nitrogen supplies are up sharply. But pesticides remain comparatively short. In general, supplies are available but prices are higher.

We expect per capita food consumption this year to be down about 1 percent from 1974. All of the decline will be in animal products. Per capita consumption of crop foods is expected to be the same as last year. Declines are expected for sugar and sweeteners and vegetable oils, but gains are likely for processed fruits and vegetables and fresh potatoes.

Retail food prices are expected to average from 7½ to 9 percent higher than the average for 1974. This is a much smaller rise than the over 14 percent increase for each of the two previous years. Most of this expected year-to-year increase in the annual average occurred in the second half of 1974 and the first quarter of 1975.

Prices of food at home or grocery store prices will be up a little less than the average; prices of food away from home will be up a little more.

We expect the rate of quarter-to-quarter increases in retail food prices in 1975 to be declining through most of the year with very little increase in the second half.

On the annual average basis we expect retail prices of livestock products to be up around 3 percent. Retail prices of beef may average lower but prices for pork will likely be up.

Retail prices of crop foods are likely to average more than a tenth higher than in 1974. Retail prices of potatoes are expected to average much lower but all the other crop food groups are expected to average higher with sugars and sweets and fats and oils showing the largest percentage increases. Most of these price increases have already occurred.

So there is this uncomfortable situation of lower farm earnings for 1975 and higher retail food prices. The same thing happened last year. But it is often forgotten that the farm value is only one component of retail prices. The other component is the marketing charge, or the farm-retail spread. And in most years the farm-retail spread is a bigger share of the retail cost of the farm food market basket than the farm value. In 1974, the farmer's share averaged 43 cents out of each dollar the consumer spent for the market basket. The share started the year at 46 cents in January but ended at 41 cents in December. For this year we think the farm value will average slightly lower, the farm-retail spread will average higher, and the farmer's share may average around 40 cents. The increase in the average farm-retail price spread. much of which has already occurred, is accounting for the increase in the retail value of the market basket.

Structural characteristics of the food and fiber system change very slowly. Thus, recent increases in food prices do not appear to be a direct result of structural changes such as in degree of concentration, integration or conglomeration in our food and fiber system. This is not to deny that structure and organization of our food production and delivery system is not associated or related to its conduct and performance. Many structural factors or characteristics that may contribute to higher food prices have been discussed. The extent to which these characteristics are problems, depends upon the point of view from which they are advanced or the performance goals applied. Also, structural problems in industries that provide inputs or services to food distribution firms may contribute to the level of food prices. Adding to difficulty of identifying structural problems that many contribute to high food prices is a lack of empirical data to measure cause and effect of many of the so-called problems.

Some of the structural problems both within and outside the food industries include:

(1) *Power and Practices of Labor Unions.*—Labor is a major cost in marketing and the power of labor unions to obtain higher wages and more benefits and to impose restrictions or work rules on food firms directly affect food distribution cost and food prices—problems that have been frequently advanced in this area relate to central meat cutting, the box beef program and job ownership or jurisdiction.

(2) *Lack of Coordination Among Separate Food Industries.*—The food system is composed of many separate and complex industries. Many problems that adversely affect productivity are system-wide problems and require coordination to solve. There is no coordinating institutions within the food delivery system for planning and implementing solutions to these problems. Problems in transportation are prime examples of the need for coordination among firms as well as industries if solutions are to be found. Solutions include such proposals as the (a) "unit train", (b) use of backhaul in trucking. (c) reduction of delays in trucks and railcars unloading at delivery points, and (d) consolidation of small deliveries to more efficiently use truck capacity.

While the absence of a coordinating force within the food industry has inhibited solutions to such problems. effort toward coordination has been discouraged by fear of being charged with anticompetitive behavior under present antitrust laws.

(3) *Location of Retail Food Supermarkets.*—The incidence of supermarkets is much higher in suburban and higher to middle income urban areas than in low income urban areas and rural areas. As a consequence. residents of inner city areas (primarily the poor) have limited access to larger supermarkets and do much of their shopping at small food stores where prices are higher.

(4) *Other Problems.*—A continuing question is the relationship of concentration to the competitive behavior of food firms and industries. There are many aspects to this question which could be addressed through careful analysis based on quantitative data.

The Department has an ongoing program of research directed toward identifying the structure of the food industry, analyzing conduct of firms and industries and measuring performance. Information on the marketing bill, costs and margins are published on a regular basis. A wide array of structural related research is directed to providing public airing of the performance of the food industry and to providing information vital to public policy decisions.

The questions of reserve stockpiles and export licenses strike at the very heart of our American system of free enterprise. Both are forms of price controls and their use on farm products would be equivalent to subjecting farmers to price controls.

Our export trade in agricultural products is too important to tamper with. Its fate is tied to our ability to purchase essential energy and mineral imports.

We have had two recent experiences with export regulations for agricultural products. One was the limitation on exports of soybeans and other oilseeds and products in the summer of 1973. These limitations were a blow to our reputation as a reliable supplier of farm products. It shocked some of our best customers, and we have still not recovered from this setback.

More recently we had export monitoring systems in effect to assure supplies at home and at the same time to meet as fully as possible the needs of our customers abroad. I'm happy to say that we relaxed these monitoring activities as soon as the supply situation permitted.

If we are to continue to provide farmers the opportunity to use all their production resources at peak efficiency, we must seek every opportunity to continue to expand our export trade. To do otherwise will move us back into a situation of trying to reduce agriculture production in this country. And none of the methods we have tried has been very successful. There is no better or surer way to encourage agricultural production than through the profit motive. Farmers must be permitted to sell whatever they produce wherever they can sell it at the best price.

Proposals for reserve stocks of agricultural products, especially grains spring from two major concerns. (1) The humanitarian desire to be able to meet food needs when production is unexpectedly low; and (2) the desire to reduce unnecessary fluctuations in prices of farm products and foods. I fully share these concerns. But I am unable to agree with some of the methods proposed to achieve them.

It would seem that those who run the greatest food security risks should hold and pay for the major portion of any reserve held for the primary purpose of achieving food security. To me, this means the importing nations of the world. For many years the United States held most of the world's grain reserves at no cost to the importing nations. We did this as a by-product of the internal price support program then in effect.

We are prepared to commit our fair share toward worldwide food security, but we expect other major nations to do their share too. I hope we will be able to work out an international understanding. Because if the United States unilaterally establishes a reserve there is little hope that other countries, either importers or exporters, will follow suit.

In this country the chief reason for establishing a reserve would have to be one of reducing or minimizing price fluctuations. That it would certainly do. And we have years of experience to prove it. We have only recently begun to call excess stocks "reserves." Before that we called them "surpluses." If we return to government-held reserves of storable commodities we will have stability, but at low farm price levels.

Attempting to build a wall of minimum resale prices around the reserve will not work either. It is too easy to change the resale prices in the name of some future "food shortage" and farmers are unlikely to be the ones who define the "food shortage."

For the final section of this statement I would like to comment briefly about the situation and outlook for several of the major farm commodities.

On the livestock side, low feed availability and high feed prices are tending to limit supplies and strengthen prices. But the record large cattle inventory and large slaughter of animals with little or no grain feeding are partly offsetting.

Cattle prices generally drifted lower during the winter as near record slaughter continued unabated from the fall level. Commercial cattle slaughter during the first quarter was up about 15 percent from last year. All of the increase was in slaughter of more cows and nonfed steers and heifers. Fed cattle made up less than 60 percent of total cattle slaughter last winter, well below the 70 percent of a year earlier.

The large nonfed slaughter was the result of the record herd of cattle outside of feedlots competing for limited and expensive feed supplies. Cattle feeding was sharply curtailed as losses to cattle feeding operations mounted. On March 1, cattle on feed inventories in the 7 major cattle feeding States were down 41 percent from last year with the largest feedlots cutting the most. Restricted movement of cattle into feedlots forced growing feeder cattle supplies to slaughter, depressing prices, and lower feeder cattle prices encouraged heavier culling of the cow herd.

More feed from pasture in the spring should reduce slaughter rates seasonally during April-June, raising prices of all classes of cattle. Choice steers are expected to average in the low $40's per 100 pounds, considerably better than the $36 January-March average. Feeder cattle could rise into the $30-$35 range unless feed prices turn much higher again.

Later this year, prices and supplies of beef will be heavily influenced by weather and prospects for the new feed grain crop. Assuming a good crop, cattle slaughter will turn higher again in the summer and fall, and prices trend lower. Fed cattle prices, however, may not drop back to the depressed levels of last winter. Another dry summer and a poor feed grain crop could result in massive liquidation and severely depressed prices of all classes of cattle. This would impair beef supplies in future years.

Although cattle slaughter supplies later this year are potentially large, the actual market supplies and the time they will hit the market is uncertain. A smaller proportion of slaughter is now coming from feedlots, and the remainder is subject to a great deal of variability depending on weather and other short term market conditions. With fewer of our cattle "scheduled" to come to market, slaughter supplies and cattle prices could be unusually volatile for the next several months. General optimism among cattlemen for a rising market, or sharp reductions in feed prices, could temporarily reduce nonfed slaughter supplies, producing a spurt in cattle prices.

Hog farmers are cutting back on production more than they earlier planned. The March Hogs and Pigs report for 14 States indicated farrowings during December-February were reduced 21 percent from last year. Continued reductions in farrowings of 17–21 percent are planned through August. Higher hog prices in the months ahead, however, may temper current plans for reductions in June-August. These pigs will mostly come to slaughter in early 1976.

Weakening corn prices in the first quarter still apparently provided little incentive to raise more hogs. Even at the lower level of corn prices, cash grain was a more enticing alternative than hog feeding.

January-March hog slaughter dropped about 6 percent below a year earlier, but hog prices moved little. Large supplies and low prices of beef have probably tempered rises in hog prices. Barrows and gilts at 7 markets averaged about $39 during January-March, the same as October-December.

But with sharper declines in pork output and a rising cattle market in the spring, hog prices are expected to rise into the low $40's, peaking in the summer around $45 per 100 pounds. Seasonal increases in pork production this fall will be less than usual based on recent farrowing intentions, so hog prices will likely remain near the summer level through the fall months.

If hog farmers do what they have planned, pork production this year will be the lowest in 9 years and pork consumption per capita could be the smallest in almost 40 years. Even further declines are possible for 1976.

Broiler meat output during the first quarter of 1975 was down about 8 percent from the same period of 1974. Chick placements and egg settings indicate April-May marketings will be down nearly as much. If the outlook is favorable for large 1975 feed grain crops, producers are likely to expand output gradually. Output may reach or exceed the reduced 1974 levels by next fall. Wholesale broiler prices for January-March averaged about 41 cents a pound, 2 cents above a year earlier. Prices are expected to continue strong through the spring and summer and average well above the 36.5 cents a pound of April-September 1974. Broiler prices will be bolstered in coming months by reduced supplies of broilers, turkeys and pork.

Turkey meat output during January-March was down around a fourth from the same period in 1974 and will remain well below year-earlier levels in coming months. Thus, turkey meat output during the first half of 1975 will be down 15-20 percent. Production will rise seasonally in the summer and may reach year-earlier levels in the fall. Despite reduced production this year, turkey meat supplies likely will be adequate because of relatively large cold storage holdings. New York wholesale prices for 8–16 pound young hen turkeys averaged about 48½ cents a pound during January-March, almost 2 cents below the same months of 1974. Turkey prices likely will strengthen this spring and summer as supplies of meats (other than beef) continue well below 1974 levels.

Egg production during January-February was down 3 percent from the reduced output during the same months of 1974. Production likely will decline further in coming months and this spring may average 5–6 percent below a year earlier. On March 1 the laying flock was down 5 percent and the lowest on record for this date. The hatch of egg-type chicks during the second half of 1974 that will reach laying age in January-June 1975 was 18 percent below a year earlier. Thus, layer numbers will remain below a year earlier at least well into the second half of 1975. Demand for eggs, particularly egg products, has been sluggish this year. Prices rose in late February and early March as demand for eggs perked up for Easter. However, as the usual post-Easter decline in demand developed, prices dropped sharply. Continued price weakness is expected this spring but reduced output likely will cause egg prices to average above year-earlier levels.

DAIRY

Milk production this year has been running about the same as a year ago. High feed prices have limited output per cow to relatively small gains. However, low cull cow prices and generally poor economic alternatives for dairymen have reduced herd culling and kept more cows in the milking herd. Milk cow numbers increased during the last half of 1974, the first such rise in about 20 years. Milk production may hold close to year-earlier levels in coming months. If feed prices do moderate, some production increases may occur later on this year. U.S. milk output totaled 115.4 million pounds in 1974, about the same as 1973.

Farmers received $8.17 per 100 pounds for milk in March, about 9 percent below a year earlier. Farm milk prices will likely hold relatively stable in the first half of 1975, although averaging well under year-earlier levels. In 1974, farm milk prices averaged $8.30, up from $7.14 in 1973.

USDA removals of dairy products under the price support program have been running above year-earlier levels since May, 1974. Butter and cheese purchases picked up in January with the higher support levels, while nonfat dry milk removals continue sizable.

Dairy imports have slackened to more normal levels since mid-1974. Imports for 1974 totaled around 2.9 billion pounds milk equivalent, down from 3.9 billion pounds in 1973, but well above the average levels of recent years. Exports of most dairy products remain small, but sizable quantities of CCC-owned nonfat dry milk are being programmed for export under foreign aid programs.

FEED GRAINS

There was a record large crop of feed grains in 1971 and near record crops in 1972 and 1973. Stocks had climbed to 48 million short tons at the end of the 1971 marketing season. However, a sharp upsurge in exports along with some increase in domestic use lifted total disappearance above production in both the 1972 and 1973 marketing years. This resulted in successive reductions in the carryover to 22 million tons at the beginning of the 1974/75 marketing year.

No one needs to be reminded that the 1974 crop of feed grains was plagued by bad weather—too wet in the spring, hot and dry in early summer and early killing frosts. This dropped 1974 output to 165 million tons. With carryover and production both down sharply, total supply was down around 20 percent from the previous year.

Feed prices rose sharply and production of most grain consuming livestock, especially fed beef, pork and poultry, became unprofitable. Current forecasts indicate declines of around 20 percent in domestic disappearance and 16 percent in exports in the 1974/75 marketing year. This would mean a carryover of only around 14 million tons, down around a third from the already low level of a year earlier.

Farmers' March 1 intentions were to plant about 122½ million acres to feed grains in 1975, the same as in 1974. If weather is more favorable than last year's extremely adverse conditions, both acreage harvested for grain and yields per acre should be up from last year. Current projections indicate total production of 205–229 million short tons. Under these conditions domestic disappearance could recover to a range of 156–168 million tons, but remain well below the 171–173 million levels in 1972/73 and 1973/74. Also exports are projected to reach 38 to 46 million compared with 37 million tons estimated for this year. The projected increase in total disappearance is less than the increase in production and ending carryover is projected to increase to 25–30 million tons. This is not an excessive level.

CORN

Corn accounts for around three-fourths of total feed grain production in this country. Thus the situation for corn closely parallels that for total feed grains.

Corn production is projected at 5.7–6.4 billion bushels for 1975, assuming normal weather. Both domestic consumption and exports are projected to increase from this year's low level. However, ending stocks are projected to rise by 300 to 500 million bushels from the extremely low 360 million bushels now forecast for October 1, 1975.

With the short 1974 crop accompanied by further diminishing stocks, season average corn prices received by farmers have risen from $1.57 per bushel for the 1972 crop to an estimate of over $3 for the 1974 crop. However, with weak domestic demand corn prices have declined about 80¢ a bushel since last October. If the size of the 1975 crop increases in line with current projections, prices of the 1975 crops for corn and other feed grains would average lower than for the 1974 crops. But since farmers will have more grain to market, the decline in total receipts for these grains will be much less than the decline in prices.

WHEAT

The U.S. harvested two successive record large wheat crops in 1973 and 1974. However, record or near record exports boosted total disappearance above production and carryover stocks on July 1 declined from 863 million bushels in 1972 to 247 million in 1974. Total disappearance for the 1974/75 marketing year is forecast to be almost the same as production. This would leave the July 1975 carryover around 250 million bushels, much the same as a year earlier and quite low relative to disappearance.

Assuming more nearly normal weather for the wheat crop harvested in 1975, total wheat production might fall within a range of 2.0–2.2 billion bushels, up from the previous record of 1.8 billion in 1974.

Domestic disappearance is projected to increase by around 100 million bushels to around 800 million mainly because of increased use of wheat for livestock feed. Exports are projected to be 1.05 billion–1.2 billion bushels. This would mean total disappearance of 1.8–2.0 billion bushels. With total production projected to exceed total disappearance, stocks on July 1 would rise by around 200 million bushels.

With the turnaround in the wheat supply-disappearance relationship, prices received by farmers have risen sharply. Farmers received an average market price of $1.76 per bushel for their 1972 crop of wheat. For the 1974 crop the preliminary estimate is for the price to exceed $4.00 per bushel. If wheat supply and disappearance for the 1975/76 marketing year turn out as projected, the price received by farmers for the 1975 crop would likely average below 1974.

SOYBEANS

Soybean production reached a peak of 1½ billion bushels in 1973. Soybean oil has become by far the leading vegetable oil in the U.S. and soybean meal has had similar success among protein meals. Soybeans crushed by domestic mills rose to 821 million bushels in the 1973/74 marketing year but are estimated to be down nearly 100 million bushels this year.

U.S. exports of soybeans have also trended sharply upward to a peak of 539 million bushels in 1973/74. In the 1974/75 crop year exports are estimated at 465 million bushels.

Soybean production was victimized by the same adverse weather that reduced corn production in 1974. Production dropped to 1.2 billion bushels. Part of the drop was offset by larger stocks but total supply declined by around 200 million bushels.

Disappearance of soybeans in the 1974/75 marketing year has not measured up to earlier expectations. Domestic crush, forecast at 725 million bushels, and exports at 465 million are down 12 and 15 percent, respectively from a year earlier. Ending carryover at 135 million bushels would be down a little.

Producers' March 1 intentions indicate an increase of 3 million acres or 6 percent in 1975 plantings of soybeans. If the weather cooperates, soybean production would total 1.45 to 1.55 billion bushels. With the increased production, domestic crush is projected to increase to 750–800 million bushels and exports to be 485–515 million bushels. Despite the increase in disappearance, stocks on August 1, 1976, are projected at 270–290 million, at least double the 135 million of August 1, 1975.

Limited supplies in relation to disappearance have had the expected impact on prices of soybeans and soybean products. Prices received by farmers for soybeans have risen from an average of $4.37 per bushel for the 1972 crop to a forecast of over $6 for the 1974 crop. Like corn, soybean prices have declined in recent months. If the 1975 crop of soybeans reaches 1½ billion bushels or more, the season average price is likely to average well below 1974.

COTTON

Reduced consumer demand and depressed textile activity are resulting in the biggest annual decline in mill use of U.S. cotton since the late 1930's. Consumption during 1974/75 is forecast to total only about 5¾ million bales, down from 7½ million last year. Sharply curtailed mill operations during recent months, due to the lack of new orders, are responsible.

The 1974 crop of all kinds of cotton totaled 11½ million (480 pound net weight) bales. This was slightly over a tenth below the 1973 crop as sharply lower yields more than offset somewhat larger harvested acreage. The 1974 crop was produced under a wide range of weather conditions.

So the 1974/75 cotton situation indicates moderately smaller production and sharply reduced cotton use. This season's prospective disappearance of about 9.3 million bales is over 4½ million below the 1973/74 level. Thus, an August 1, 1975 carryover of over 6 million bales is indicated. This represents a buildup of more than 2 million bales this season and will place stocks at the highest level since August 1, 1969.

U.S. cotton exports will likely total about 3½ million bales, down from 6.1 million in 1973/74.

Weakening demand relative to supplies has caused cotton prices to tumble this season from 1973/74's high levels. However, most spot market prices have strengthened slightly during recent weeks, reflecting slightly improved demand in the face of continued reluctance by producers to sell at current prices. With steadily mounting production costs, this season's lower prices are encouraging producers to reduce cotton acreage sharply in 1975.

Farmers in early March indicated intentions to plant 10 million acres of cotton this spring, down from 14 million last year, and the smallest since 1967. However, planting intentions for cotton are up about 0.4 million acres from those indicated in early January because of recent softening in soybean and grain sorghum prices.

Smaller cotton production is likely this year in view of the 29 percent smaller acreage planned for the 1975 crop. However, output will likely decline less than acreage since yields are expected to rebound from 1974's relatively low 443 pounds per harvested acre. Given more normal weather conditions and the seeding of land most suitable for cotton production, yields may very well challenge 1965's record-high 527 pounds.

For the 1975/76 marketing year, both domestic mill use and exports are expected to increase some from the low levels this year. Mill consumption is projected to range from 6 to 6½ million bales and exports to be in a range of 3.8 to 4.3 million.

TOBACCO

Tobacco acreage may rise 11 percent this year. Basic quotas are up for both flue-cured and burley tobaccos and growers can make up some quota shortfall from last season. On intended acreage with average yields, total tobacco output would be around a tenth more. During the current marketing year exports and domestic use are holding near the high level of last season. Use exceeds output so carryover stocks may drop 3 percent. Prospective carryout plus projected crop gives a tentative supply slightly above 1974/75 season.

Flue-cured growers intend to set about 15 percent more acres than last year; the projected crop is up about one-seventh. With smaller beginning stocks, next season's supply may rise slightly from this season's.

USDA has set the 1975 burley marketing quota 10 percent above last year. Burley growers expect to set 7 percent more acreage. A further recovery is projected in yields so the crop might turn out 8 percent larger. With indicated carryover added, the supply would be slightly larger.

The 1975/76 tobacco crop and utilization could vary 5 percent from the projected totals depending on weather and use prospects, particularly in foreign markets. Price supports go up 12 percent under the law. Auction prices are expected to show wider seasonal swings with tight supplies, including low loan holdings. The cumulative USDA price average for the season will likely be a little higher than the estimated $1.08 per pound average for the 1974 crops of all types of tobacco.

In summary, the agricultural outlook is fraught with more than the usual uncertainties. Farmers have indicated their intentions to plant a large enough acreage to have abundant crop production if the weather is favorable. Supplies of farm inputs are generally adequate but high priced. Large output of crops, especially grains is needed to meet current domestic and foreign demands and replenish depleted stocks. Although realized net farm income will be down from the high levels of 1973 and 1974 it will be the third highest of record. Per capita food consumption will about match last year and the rate of increase in retail food prices is slowing with very little increase in the second half of this year.

Chairman HUMPHREY. As you know, we will have some agriculture directors here from States. You might expect that I would invite the representative from my home State. The representative from the State of South Dakota is here, one of the largest feed grain and wheat producing States in the country; and a representative from a more diversified agricultural area, Pennsylvania, is here, too.

I want to ask you a few questions. I regret that we are not going to have lots of time; we really need to go over many of the matters that you brought up in your statement.

You mentioned in your statement, I believe, that with a good crop in 1975, retail food prices will stabilize; I believe that is the general summation of your economic analysis. But I am puzzled just why you think 1975 will be a good crop year—discounting the possibilities weather, nobody knows what we are going to have there. Weather is one of the unpredictables here.

You have been urging very strongly a veto of the farm bill, the one that is basically the bill that was formulated in the House: a bill that was designed to provide higher target prices in light of the increased cost of production and better loan rates thereby encouraging farmers to maintain a high level of planting. And at the same time to get some insurance against severe losses due to the possibility of lower prices.

Now, what do you think will happen to planting levels if the farm bill, which has been passed by a substantial majority of both Houses, but I regret to say—from my point of view—not large enough to override a veto—what do you think will happen to the planting level if the farm bill is vetoed?

Secretary BUTZ. I don't think it will have any impact, actually. Our farmers have the seed purchased and the fertilizer is in place, in the main: plowing is on schedule and in many places ahead of schedule; plans are made, and I think the impact of the fate of this so-called farm bill on planting in 1975 will be minuscule. Whether it is signed or vetoed, I don't think it will have any impact.

Chairman HUMPHREY. You are aware of the numerous meetings that have been taking place around the country?

Secretary BUTZ. They certainly are apparently spontaneous, and I think they are genuine in many cases. Somebody told me at a meeting in the Corn Belt they hoped that their neighbors would follow the advice and cut back production.

Chairman HUMPHREY. Well, I spoke to one of those, Mr. Secretary, who said very much the same thing. And I remember when I was a young man going to meetings like this when everybody was advocating a cut in production. And on the way home one farmer would say to the other, "I think old Fred is going to cut his by 10 percent, I'll keep mine up."

But maybe they have learned more over the years. As a matter of fact, I think that the farm operator today is a very able businessman; they keep good accounts; they know much more about production and production cost and marketing than two or three generations earlier.

Out in the area where I come from, I have been encouraging and urging that there be good planting. But I must tell you, I have never in all my life run into such antagonism, such resistance and bitterness about agricultural policy, as I have in this last year. And I always thought that I was a pretty good friend of these farm people—and I still think I am—but they are certainly angry with everybody. And they have organized by the thousands in small communities in Minnesota, like Cottonwood, which is a small community of 1,500 people; 2,500 farm producers turned up, 2,500; Farm Bureau, Farmers' Union, no ideological framework at all. And almost to a man they are demanding either a better target price, or better loan on the one hand, or they are saying, "We are going to cut our production," and they talk about a 10-percent cut.

Now, the Commissioner of Agriculture from our State is here, and I think he is much more aware of the day-by-day details of it.

But let's assume that you did get a 5 to 10 percent cut in acreage, what is that going to do to—let me back up—the farmer that does it, does it for one reason, so he gets a better price for what he produces, so that he can meet his high operating costs that he faces and also to pay off those high-interest loans that he acquired.

By the way, at practically every meeting that I attended—and I have been summoned home, not invited, but summoned home to visit with our farm people—and at every one of these meetings a large number of county bankers were there, and these bankers would get me off in a corner and say, "Look here, Hubert, if something isn't done, either a cut in production, or a better loan rate, or a better target price, my bank is in trouble, and these farmers can't pay off; or you've got to give us some kind of a loan moratorium so nobody has to pay off in the next year."

I know you must hear this, and I am not just trying to paint a dismal picture because I am generally pretty much an optimistic person. But the real truth is that the largest concern, the greatest concern that I am getting registered in my office, and I have them in today, are independent country bankers who simply say that if things continue as they are, they are going to go "belly up." And they are in here every week.

Two weeks ago I got off a plane in Minneapolis and went over to the Sheraton Motel, and there were 250 soybean producers and 47 bankers. And their word was just two things, soybeans have been doing pretty well. They wanted to know what the loan price was, whether or not there would be a loan; they were concerned about foreign markets—their problem is a little bit different than others'—but the bankers were there for one reason because while they are basically soybean producers, they also have some cattle; frequently they plant some corn; sometimes they have a small amount of grain. Each one of these bank officials told me that unless something was done they were in serious difficulty with their loans and with their ability to finance this year's crop.

Now, I don't know whether you are getting that information as directly as some of us are, or not. You know, I do not live in a poverty-stricken State. Minnesota is a very well off State in terms of the national average. We have our problems, but we've got very rich farmland, particularly in the southern part of the State and central Minnesota, and yet they are having very serious problems in financing seed, fertilizer, and all the equipment necessary for planting.

Now, am I accurate in this picture, Mr. Secretary, are you getting the same information? I know I am not exaggerating what has been told me, I can assure you of this; but are you getting the same input, and if you are, what do you intend to do about it?

Secretary BUTZ. Oh, yes, we get some of that same input. As you know, I try to keep my finger on the pulse of rural America as a department, and I personally get out a great deal into rural America, too.

Let me take soybeans as a case in point. There is mixed reaction on this matter of high loan rates for soybeans, and there was in the bill that was passed, a high loan rate; there was no target price.

Chairman HUMPHREY. Just for 1 year we kept it because we thought it would not be detrimental to the foreign market.

Secretary BUTZ. But nobody is as naive as to believe the loan rate would expire in an election year, 1976; it would not be subject for discussion in this body up here.

Chairman HUMPHREY. But I do not consider $3.93 or $3.94 high for beans.

Secretary BUTZ. I think that's the very point. What we are trying to do is keep the market price well above the target prices and loan rates.

Chairman HUMPHREY. Right.

Secretary BUTZ. And I hope that the market prices does not fall even to the high target prices in the bill which has been passed in Congress. I want farmers to get as high a price as possible in as free a market as possible.

I think the use of target prices—the term "target price" has been an unfortunate nomenclature in this whole process. My target price, and I'm sure yours too, is one high enough to make some money in this field, and hopefully in a free market situation that enables us to retain access to the world market. And you've got to do that even though competition is growing. Soybeans in Brazil are growing very rapidly.

Chairman HUMPHREY. I know.

Secretary BUTZ. And the American Soybean Association itself is ambivalent on this question of the high loan rate for soybeans. And oddly enough, it has been reported to me that most of the pressure on the loan rate comes from the processors, and not the producers. The producers themselves and their organizations are fearful that we will do to soybeans what we did to cotton.

Chairman HUMPHREY. The pressure for target price came from producers.

Secretary BUTZ. The pressure for loan rates?

Chairman HUMPHREY. Loan rates, the pressure for some loan rates too, although they are related to the feed value of corn. It's related to corn.

Secretary BUTZ. That's correct.

Chairman HUMPHREY. Now, that came from producers too. Of course, there are different kinds of producers; people have different points of view. I happen to be one, Mr. Secretary, that believes it's pretty important to stay competitive in that international market. Senator Dole and myself were both very much concerned about fixing the loan rate as high as we did in the farm bill. We had it in there for a longer period, and then we reduced it to 1 year to see what the effect will be, to have a chance to look it over and have some economic analysis made of it.

But, getting away if I may—and you do make a point on soybeans as far as the international market is concerned—the thing that happened in Brazil as I've brought up many times, was our embargo. The Japanese found out they could not be sure of their American soybean import—our export to them. They went out to seek places that could produce their crop, and most of those beans in Brazil are being produced as a result of Japanese contracting.

Secretary BUTZ. Mr. Chairman, Brazil and Japan are not alone. Some members of the European community are doing precisely the same thing. I think it is a reaction to the high price of soybeans.

Chairman HUMPHREY. What will happen, Mr. Secretary? Let's assume we get reasonably good weather across the country. Let's assume that you are right, that the farmers talk about cutting back, but they won't cut back; and let's assume that you get a good crop, that you get a 2-billion-bushel crop of wheat.

From what we know, export sales or requirements are falling, not growing—the tight money situation in other countries—as a result of the recession that the European sector is having, and other parts of the world, there isn't the demand today, according to the analysis that I just read, for exports, or export expectations.

Let's assume, then, that you have this substantial supply on the American market, and prices start to plummet, they start to go down. What action are you prepared to take to stop that decline?

Secretary BUTZ. Well, the Secretary has the administrative discretion of setting loan rates; that's the answer.

Chairman HUMPHREY. That is what you have in mind.

Secretary BUTZ. That is under discussion and consideration. As you know, I cannot change the loan rate on cotton.

Chairman HUMPHREY. That is correct, that is why they wanted to change it in the law.

Secretary BUTZ. It's 90 percent of the last 3 years' world price on cotton. I could freeze in place the preliminary announcement of the loan rate for the 1975 crop. This could still be adjusted up or down as the world price changes, but beyond that I'm limited on what I can do there. There is considerable latitude on what the Secretary can do on loan rates for wheat and soybeans.

Chairman HUMPHREY. Like what?

Secretary BUTZ. As far as I am aware——

Chairman HUMPHREY. We are not just talking to each other here; we are trying to educate the ill-informed public.

Secretary BUTZ. I just asked counsel here, and he doesn't know it either. I don't think there is any ceiling on the loan rate the Secretary can set; I'm not too sure about that. I don't think there is one except the proper decision; you don't want to set it too high, of course.

So, there is a great deal of discretionary area there for the Secretary to set the loan rate.

Chairman HUMPHREY. Isn't it 100 percent parity on wheat and 90 percent on feed grain?

Secretary BUTZ. That is a very high level.

Chairman HUMPHREY. That is a very high level. You have that authority.

Secretary BUTZ. That's correct.

Chairman HUMPHREY. Mr. Secretary, do you intend to use some of that authority if these prices start to plummet?

Secretary BUTZ. We remain flexible on that, sir. I don't propose to sit here as Secretary of Agriculture and see the American farmer liquidated; that is under consideration right now, sir.

Chairman HUMPHREY. In other words, you are giving consideration now, as an option, in case things break poorly——

Secretary BUTZ. Yes, sir.

Chairman HUMPHREY [continuing]. For utilization of the authority which is in existing law; to adjust loan rates.

Secretary BUTZ. Yes, sir.

Chairman HUMPHREY. Now, let me ask you about the possibility of the CCC stepping in, let's say in the cotton area, stepping in and making purchases in order to stabilize the price structure.

Secretary BUTZ. That can be done, again, under authority. The Secretary can authorize the CCC, or the CCC director to authorize purchase programs, as we did 3 years ago in corn, for example. Corn was set at a very, very low price, and we inaugurated a purchase program. We didn't do much; we didn't have to do much; conditions turned around. But the Secretary does have that authority.

And again, I don't propose to sit here as Secretary and see the American farmer being liquidated.

Chairman HUMPHREY. Did you make an announcement—am I properly informed that you made an announcement that there would be no loan on beans?

Secretary BUTZ. We don't have any loan.

Chairman HUMPHREY. On the 1975 crop?

Secretary BUTZ. We don't have any loan on soybeans now at all.

Chairman HUMPHREY. Are you contemplating any possibility?

Secretary BUTZ. This whole area is under discussion.

Chairman HUMPHREY. Is it under what I call active discussion?

Secretary BUTZ. As far as soybeans are concerned, at the moment, it does not have a priority listing, as far as I am concerned.

Chairman HUMPHREY. Because of the market price?

Secretary BUTZ. Because the market price is well above the loan price.

Chairman HUMPHREY. Do you expect that market price to be sustained?

Secretary BUTZ. Yes, I do. If you look at the futures market right now for new crop contracts, beans, wheat, and corn are only slightly below the current spot market prices. The price of new crop wheat right now is less than 10 percent below the price of the old contracts; the price of new corn, of the new crop, is within a quarter of the present price of old corn.

Chairman HUMPHREY. And beans?

Secretary BUTZ. The price of beans is very, very close; it is very close to the price of the old crop.

Chairman HUMPHREY. Excuse me, I'll defer to Senator Percy, now.

Secretary BUTZ. Mr. Chairman, I want to say again, we appreciate your giving agriculture consideration by this committee; it too long has been the orphan of American economy. And from many, many points of view it is one of the most fundamental parts of the American economy, and I am delighted to see you give it this attention.

Chairman HUMPHREY. You know, I feel that way. And might I say, Mr. Secretary, sometimes when I have asked some of the questions I have here, there has been such a colossal lack of understanding of the intricacy of the mechanisms that are involved in agricultural policy and agricultural economics. I think it's just sort of good to spread it out on the record.

I might tell you that after each of these hearing we put out a newsletter, we do not make it an editorial, we put in the newsletter what the witness had to say. And the purpose is to get broader dissemination of the information that comes before us.

Senator Percy.

Senator PERCY. Mr. Chairman, I would like to address a comment to you first, if I may, because of your mention that soybeans seem to be doing pretty well. I hope that the Congress will keep its cotton-picking hands off soybeans. They have done so well without Government intervention that I'm very concerned that if now we move in with a congressional program, the soybean, which is a large product in my State, is going to have the same kind of market distribution that we have had with all these other crops. They have been in trouble for many years because the cotton-picking hands of the Congress and the Agricultural Department just can't stay out of the control of these crops.

I feel there is no reason whatsoever for us to have a farm program of target prices, or anything else on soybeans. There is a correlation between crops that seem to do reasonably well, and the lack of Government getting deeply involved. So, I hope we might benefit from that.

Secretary BUTZ. I'll make a pact with you, Senator Percy. I'll keep the Department's cotton-picking hands out of it, if you do the same for the Congress.

Senator PERCY. I think on that we feel alike. I agree with our chairman on a great many issues, but on agricultural policy we do have some differences. I hope we wouldn't have differences on export policy. It has been your policy, Mr. Secretary, to encourage farmers this year to plant to full capacity, which I think will be good for farm income, and which is good for the consumer as well; and good for our obligations to meet market demands abroad.

Because they are planting at this rate, farmers are concerned as to whether or not the Department of Agriculture might interfere with export controls. Can you tell us what you intend to do about that; will we have tampering with the market by the Department of Agriculture; and how do you interpret the attitude of Congress on that particular issue?

Secretary BUTZ. Well, first, the experience we had last year with export control, that was an unfortunate consequence of a short crop in the U.S.S.R. which they felt they could take off the present market without a severe impact on price. This was unfortunate. We still have a monitor system in place, as directed by this Congress, and we will keep that in place, of course.

We will do our utmost to avoid a repetition of export control, and one of the best ways to do that is to have full production by American agriculture. I want us to be a credible supplier in the world market for the very type of things we produce in Illinois. Illinois is the Nation's No. 1 soybean-producing State.

Senator PERCY. And No. 1 agricultural exporter.

Secretary BUTZ. No. 1 exporter last year, and I congratulate you for it.

Senator PERCY. I didn't personally do it all. [Laughter.]

Secretary BUTZ. I'll give you credit for it.

Senator PERCY. Well, I certainly believe my thinking has been in tune with your own philosophy that market orientation is right. All through the period of high prices, when the urban area consumers were talking to me about stopping exports, cutting off exports, I simply pleaded with them to have some degree of understanding that for 40 years we have been trying to develop markets abroad, when we had all these surplus crops. Now we have developed customers, and when they most desperately need whatever it is, we start cutting them off and say, "Well, do without our beans in Japan for a few years." Doing without soybeans in Japan now would be a terrible thing. We have developed markets in Australia. If we cut them off, would they come back to us later when we have excess to sell? I doubt it.

So, I think your policy in this regard has been very good. So, as I understand it, we are to have no export embargoes, or impediments imposed by the Department, certainly for this year.

Now, the monitoring that you have mentioned is, I think, something that I understand, and tried to explain to agricultural groups in my State. In a sense they look on it as those who oppose gun controls look at gun registration—it's there: it potentially could be used to move in.

But in your own words, could you explain what the Department does with the monitoring program, and why it is really in the interest of an orderly market to have that kind of knowledge and information available; and why it's really not a threat to the farmer? It doesn't imply that you are going to impose export controls, does it?

Secretary BUTZ. Well, I think you largely answered your own question.

Senator PERCY. I'd rather have you put it in your words because what I say doesn't mean nearly as much to farmers as what you say.

Secreary BUTZ. Before we started the system of monitoring, the only way we knew the volume of export sales was in registration of shipments, and this came in many cases weeks after the actual sale had been made.

The monitoring now would require a weekly reporting of sales abroad, and for any sale in excess of a specified amount we require reporting within 24 hours. That gives us a running check on the volume of sales being made, the destination of those sales, and the approximate time they are shipped. This enables us to see quickly if any major purchasers are moving in to make what I would describe as a raid on our market, as did indeed occur last fall with the very substantial sales to the U.S.S.R., in excess of what we thought would be normal for that market. In this case the U.S.S.R. made what was essentially a political decision to maintain their livestock population at the given level, perhaps even to increase them, regardless of the unfavorable relationship of feed cost and livestock returns. This meant it would have driven feed costs up and would have injured our livestock producers; it would have accentuated liquidation of livestock; it would have worked against consumers. And I think it was in the interest of the consumer that we took these steps, if for no other reason, for extensive liquidation of livestock inventory.

Senator PERCY. I thank you very much indeed. You possibly have discussed this next subject before I came in. I would very much appreciate your comments on whether the President is going to veto the farm bill. I voted against the Senate version because I felt that the new target prices might potentially price us out of the world market, particularly in cotton, for instance, where the target price is ahead of the world market price. I didn't think it was a very good bill; I thought it was a giant step backward, and that we weren't learning from the lessons of the past.

What can you say about what the President is gong to do; and furthermore, if he does veto it, what would your recommendation then be to Congress about target prices this year?

Secretary BUTZ. Well, as far as I can prejudge the President here, the White House staff has indicated his intention to veto the bill for a number of reasons, one of which is, it would increase the budget outlay at a time when the President stated very firmly that it was not his intent to approve any measures which would run the deficit above $60 billion, which is the line he drew on the chart the night he gave his address after signing the tax bill. It has been estimated by the conferees themselves that this bill would impact about $210 million additional on budget outlays; and this outside of the increased loans.

Now, you can argue whether loans are a budget item or not, they do impact upon budget outlays in the year in which they are made. Our estimate is that this bill might result in an additional $1.8 billion outlay, including the loans.

There are other reasons why the bill may be vetoed. As you say, there is danger that we run the prices, the loan limits up to insensitive prices, we could begin to establish price umbrellas above the world price. If we had such loan levels, for example they would accentuate the flow of capital into Brazil.

Now, what would the Department do? I think we will have to do a number of things. One thing would be to raise the wheat acreage quota for this year quite substantially, which gives an increased guarantee to wheat producers. Before you came in, I indicated that we worked out a satisfactory solution of this dairy import problem, which was a very sticky problem. Yesterday we reached a satisfactory resolution on that.

There is administrative latitude for raising loan rates on wheat and corn.

Senator PERCY. On the question of food reserves, I agree that the United States should not be the only country to hold reserves of food. Could you give us an update as to the current status of negotiation with other countries to follow up on the World Food Conference, to have an international system of reserves?

Secretary BUTZ. There has been a conference of the principal food-producing nations and the principal food-importing nations on that question; it did not reach a resolution. We take the position that there should be an international program of some kind for food reserves, and each country could determine for itself how it would handle that internally.

I think we are detecting a decreased interest on the part of some countries to an international system of food reserves as they see the situation easing. They see the United States and Canada getting back again to having larger reserves that we had the last year or two.

We are pressing ahead with those discussions, they will be an agenda item at the forthcoming meeting of the World Food Council, which has just been set up.

Senator PERCY. Mr. Secretary, I understand that you have to leave in a few minutes. Congressman Rousselot has just come in, and I will confine myself with one more question, if that will be all right.

Chairman HUMPHREY. Congressman Brown of Michigan is here. also.

Senator PERCY. Oh, I'm sorry, Congressman Brown came in first.

Just one last question, then, very briefly. It is a theoretical question. Do we really need a farm program? In your own judgment, have we moved to the stage after 40 years of experimentation here where we really don't need programs that control production and will establish prices for farm products? Or are there exceptions where we will always, in your judgment, have to have a farm program? You have been the strongest proponent and the most articulate we have had for many years, to try to wean ourselves away from controlled markets and move toward a freer market.

Secretary BUTZ. We have a farm program now in the 1973 act, which is a pretty good act that Congress has hammered out in cooperation with the administration.

Yes; farmers need guarantees under them. The individual farmer can't really influence the price he receives at all. He's got fixed-cost input, variable-cost inputs, and they are getting higher.

I think the answer to your question, do we need a farm program is, absolutely yes; I would defend that to the limit. On the other hand, I don't want the kind that does get the Government involved in setting the price, and having a whole horde of bureaucracy out here doing the management for him. I would like to have it as free as possible, but we do need a farm program like the one we have.

Senator PERCY. Thank you very much, Mr. Secretary.

Chairman HUMPHREY. Congressman Brown of Michigan.

Representative BROWN of Michigan. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being with us this morning. I trust, Mr. Secretary, that you have not touched upon this. I think it is agreed that whenever we have a recession, the small, less profitable active businesses, whatever they may be, suffer more than the larger ones. In this case it would be the matter of small farmers suffering more than the larger, more entrepreneurial, organized participants. Has that been true in the agricultural industry?

Secretary BUTZ. Not necessarily. Sometimes the larger ones suffer more because they have a larger share of purchase-production inputs. In the situation of a price squeeze, the larger share of your total production inputs are purchased, the tighter squeeze you get in.

I think in a case like this where most of your production input is from your own sources, your own labor, whatever it may be, the less vulnerable you are to purchase costs.

Representative Brown of Michigan. Then you say that the present recession has not had that impact on our agricultural industry?

Secretary BUTZ. Oh, yes, it has a bad impact.

Representative BROWN of Michigan. In other words, it is affecting the smaller operations more than the larger operations?

Secretary BUTZ. I would hesitate to make a general statement, as I say, they have been affected, of course.

Representative BROWN of Michigan. I think there is a trend toward larger farming operations, and fewer family farms. Do you think that will have the effect of stabilizing, or making less stable farm prices?

Secretary BUTZ. I don't think that that in itself would have a great deal of impact as we move toward larger farms. I am thinking about the family farms now. In your own State of Michigan in some cases, there are 200,000 involved in family farm operations, dad and son. And I think the destabilizing of the farm products and farm income is off the farm more than on the farm, it is not associated with the farm structure itself. It is associated with the weather, it is associated with the foreign market, the impact of inflation on our economy.

Representative BROWN of Michigan. Again, I trust you have not touched upon it already, but a rather significant controversy is going on with respect to the impact of budget deficits on the availability of capital for the private sector. Do you have an opinion in that regard, as to the effect large budget deficits will have on the availability of agricultural capital?

Secretary BUTZ. I certainly do because agriculture now is a very large capital user in this country, a major capital user. And I think anything that raises interest rates would be to the disadvantage of the American farmer. And this budget deficit is bound to impact adversely on the interest rate. If we have to go to the capital market this year for, say $75 or $80 billion in new financing for the national debt, it is going to make it more difficult for private capital ventures; it is going to make it difficult for Federal loan banks that compete on the same market for funds; and they can get them only by paying a higher price.

Representative BROWN of Michigan. Mr. Secretary, I am sure you will be sympathetic to a position I have taken for some time now, and that is, it seems to me to be a little bit invalid to consider increases in farm prices as inflationary when we recognize farm prices, the prices of farm commodities, as being depressed. In other words, we try to get farm returns up to parity. And it seems to me that if you are raising something up to parity, that you shouldn't consider that as inflationary.

I have talked with many economists about this, and I think we get down to the point where we are really talking about prices today on the base of the norm, rather than having a specific element of inflation.

Secretary BUTZ. Well, take the farm prices for the last 12 months, for example. If you check the index of prices received by farmers in the last 12 months, you will find it declined by 15 percent.

The index of prices paid by farmers increased by 10 percent, that is a 25-percent change in the economic position of the farmers. Frankly, I can't think of any other major sector of the American economy to make that contribution to inflation control. They have it taken out of their hide.

Representative BROWN of Michigan. In the interest of time, Mr. Secretary, I will defer to my colleague, Congressman Rousselot.

Chairman HUMPHREY. Congressman Rousselot.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Mr. Secretary, we appreciate your willingness to be here today. We note in the publication put out by your own committee, the Economic Indicators for April, that whereas realized gross income has basically remained fairly stable, since 1973, net income, including the net inventory change, has decreased substantially.

Would you say that that is a result of primarily increased costs to the farmer, or is it also his inability as an individual entrepreneur to cope with things outside his control?

Secretary BUTZ. I think it is both. He has no control over his costs except as he pursues good management, and economizes on output or production factors. If he needs a new tractor, he's got to pay the going price for it. If he is going to put nitrogen on his wheat, he is going to pay more than double what he paid 2 or 3 years ago.

This comes back to the statement I made earlier here this morning that if there is any group that is injured by inflation, it is the American farmer because his costs go up, and they stay up. And that is precisely what has happened here. As I pointed out, his income has remained fairly level, and his costs have gone up; that is the problem.

Representative ROUSSELOT. So, his net income is going down.

Secretary BUTZ. That's right.

Representative ROUSSELOT. What impact have taxes had on his ability to cope with the decrease?

Secretary BUTZ. Well, the real estate taxes, of course, have gone up a great deal, as real estate value has increased too in most cases. And this has a direct impact on production costs. Now, income taxes are something else, of course, that is direct cost.

Representative ROUSSELOT. Of course, as his gross income goes up, also the potential impact of taxes goes up.

Secretary BUTZ. For those States that have gross income tax, that is correct.

Representative ROUSSELOT. Well, I know your time factor is upon us. I would like to comment a little further, if I could, on Congressman Brown of Michigan's comment on the availability of capital. We are contemplating, as you know, and are in the process of marking up our goal, as a Congress, for expenditures right now, for 1976. We are contemplating an expenditure level that will create an annual deficit, in the House, of $73 billion, which speaks to the issue of availability of capital of the farmer, which is an important segment of our economy.

What impact does it have when the Federal Treasury, for instance, goes out and borrows capital from the private market, substantial amounts of capital to make up these deficits that we are creating in Congress?

What impact does that have on the farmer and his capability to borrow new capital?

Secretary BUTZ. I think the impact will be double. In the first place, it is bound to raise the interest costs—there has been some decline in the last few months. About a year ago the interest costs were a very, very serious burden on the farm operating costs. I would like to see the interest rates come down, and I don't believe they can in the face of the very big deficit that has to be financed from the private capital market.

Representative ROUSSELOT. So, if Congress sets a goal for 1976 of an annual deficit of $75 billion, we will be affecting the small farmer and his capability to borrow from the capital market.

Secretary BUTZ. I can't interpret it otherwise.

Representative BROWN of Michigan. Will the gentleman yield?

Representative ROUSSELOT. Yes.

Representative BROWN of Michigan. Mr. Secretary, do you have any figures as to the distribution of debt, farm debt, through several quasi-public loaning agencies, the Federal land bank——

Secretary BUTZ. Oh, yes. I don't have them right here.

Representative BROWN of Michigan [continuing]. And basic conventional lending institutions, such as banks.

Secretary BUTZ. I will put them in the record, Mr. Congressman.

[The following information was subsequently supplied for the record:]

FARM DEBT HELD BY MAJOR LENDERS FOR 1972, 1973, and 1974

[In millions of dollars]

Lender	1972	1973	1974
Nonrealestate:			
Commercial banks	12,498	14,315	17,167
Production Credit Association	6,078	6,607	7,829
Federal intermediate credit banks	237	251	331
Farmers Home Administration	771	781	877
Individuals and other lenders	13,700	15,360	15,900
Subtotal	33,284	37,314	42,104
Real estate debt:			
Federal land banks	7,880	9,050	10,901
Farmers Home Administration	2,618	2,835	3,013
Life insurance companies	5,564	5,643	5,992
Commercial banks	4,218	4,792	5,458
Other (including sellers)	11,927	13,437	15,915
Subtotal	32,208	35,758	41,280
Total	65,492	73,072	83,384

Representative BROWN of Michigan. Can you give me an idea of the split?

The reason I ask this question is this. The housing, industry depends pretty much upon conventional institutions, banks, et cetera, for its money. Certainly the family farmer does pretty much the same. Although, maybe if you are a corporate borrower you may be able to get into the capital market, have better access to it, despite large deficits; if you have to go through conventional institutions, you could be in a serious credit crunch.

Secretary BUTZ. I think our Farm Credit Administration has done a pretty good job.

Mr. Chairman, may I be excused?

Representative BROWN of Michigan. Thank you, Mr. Secretary.

Chairman HUMPHREY. I do want to excuse you, Mr. Secretary. Before you get discouraged about the availability of farm capital, I would suggest that you read the testimony of Mr. Modigliani, who is the chairman of the department of economics at MIT, and Mr. Brimmer, who was one of the distinguished members of the Federal Reserve Board, and Mr. Tobin of Yale. We have yet to find anyone that callaborates that there will be a crowding out of the private market if there is reasonable management of the $75 billion deficit in fiscal 1976.

Now, we are conducting a major study in the committee on it, and we have also had testimony from people of the Treasury Department on this matter.

I might also just ask this simple question. Somewhere along the line, we ought to figure out what is the cost of production. Now, we will see that Pepco, the Potomac Electric Power Co., which provides electricity for this area, at least gets cost of production plus a profit for producing electricity. And we will get along without electricity a damned sight better than we will get along without food. I don't want to have to make the simple choice, or the complex choice; but what I am getting at is this: there simply has to be some kind of farm program. And as you have indicated today, you have the tools to do this in your loan program and your purchase program to see to it that farmers are not squeezed down below the cost of production; they ought to have a reasonable return.

Now, we have the land-grant colleges. I think 10 land-grant colleges, that are surely not partisan, that can give the Committee on Agriculture and Forestry their estimate as to cost of production of a bushel of wheat, a bushel of corn, or beans, a bale of cotton. Now, we have those figures, and they are pretty much all in the same ballpark, whether you go to Oklahoma or Cornell or the University of Wisconsin or wherever you go.

I can't help but feel that this is where we really get at the essentials. You know we say, "farmers, plant at all-out capacity"; and that is what my good friend from Illinois, Senator Percy said, "It's good for the farmer and good for the consumer." I wonder if he really believes, for example, that the Kodak Co. ought to do that or that General Motors ought to do it. We could reduce the price of cars and the Government could just go to General Motors and ask them to produce everything they can produce; put the people back to work. They won't make any money, they'll go broke and they know it. These companies manage their production.

But these millions of little farmers out there, family farmers, cannot manage their supply without some kind of instrumentalities to help them. And the big problem in agriculture today is not to tell farmers to plant, but the question is what will he get for whatever he planted.

I mean, it doesn't take any brains to run a drugstore and give away your merchandise, you know; I have had ample experience trying to do that. Anybody can give away a 10-cent postage stamp for 6 cents.

Secretary BUTZ. Mr. Chairman, may I point out that during the 40 years that we were engaged under this supply management, under whatever name you want, it did not bring prosperity to farmers, either large or small, except in a short wartime period.

Chairman HUMPHREY. That's correct.

Secretary BUTZ. Therefore the program of supply management did not accomplish the purpose it set out to accomplish.

Chairman HUMPHREY. Because it was a weak-kneed program, poorly conceived, and oftentimes poorly administrated.

Secretary BUTZ. And often changed.

Chairman HUMPHREY. And oftentimes changed. I listened, for example, to "no loan program for soybeans" because frankly most of the soybean producers may not need it, that's true. But the reason for a loan program is not always support. The reason for a loan program is that it permits that farmer to get capital in times he needs it, upon a very good piece of collateral.

And isn't it interesting that banks think that food products are good collateral, but the Government always worries about it, and banks do much better at making money than the Government. There are very few bankers that are unwilling to make a loan on beans; but the Government hesitates to do it; they say, you know, they may accumulate.

I know you have to go over to the White House, Mr. Secretary, and I just wanted to get in these few little commentaries.

I feel very strongly about it; I feel that the time is at hand for the American people to realize that agriculture is essential to the life of this community. The Federal Reserve Board sees to it that interest rates are maintained so that banks make profits, that is what they are in business for, apparently, they do very little else. And we have the Interstate Commerce Commission that maintains rates for railroads. We have the Federal Power Commission, and 50 State power commissions that look after telephones and electrical utilities, and gas prices; we have all those sorts of things.

And here comes "Mr. Farmer," and we say to that poor soul, sitting out there with high capital requirements, facing the uncertainty of weather, never knowing what is going to happen to the market; he never knows whether the Russians are going to buy or cancel a contract; he never knows whether the Chinese are going to buy or cancel a contract, the two biggest purchasers that we have had in recent years, which changed the whole picture of agriculture more than anything else, more than anything this Government has done. Weather, worldwide weather conditions, Soviet Union purchases, and the Chinese purchases. Those three things do more to create instability in agriculture than any other thing.

And I might add that we don't know what they are going to do in the future; there is no way of knowing. Recently China just canceled a group of contracts. We are the free market economy, leaving ourselves open at market rates at any time, there is nothing to stop that. For example, tomorrow our friends from Saudi Arabia may come in with all that money that they've got and buy up all the corn we have.

Secretary BUTZ. That is why we have our monitoring system.

Chairman HUMPHREY. Monitoring system, but you monitor it after the fact.

Secretary BUTZ. Within 24 hours.

Chairman HUMPHREY. A week later for all but the very largest contracts. And knowing my friends in the Arab world, they can do an awful lot of small-lot buying in a week. They even fight wars in a week over there.

Senator Proxmire.

Senator PROXMIRE. I certainly understand that you have to leave, Mr. Secretary.

Chairman HUMPHREY. Would you like to leave as hostage one of your associates here; do you need them?

Secretary BUTZ. No. Frankly, you might want to keep them here; we may be discussing, among other things, the farm bill. You may want to keep them here.

Chairman HUMPHREY. Are you going to the White House for a nefarious purpose?

Secretary BUTZ. You may want to hold me here.

Chairman HUMPHREY. As a matter of fact, I suggest we lock the door. [Laughter.] You are a very persuasive man.

Secretary BUTZ. Let me say, Mr. Chairman, there is no difference between your objective and mine, both of us want prosperous farmers.

Chairman HUMPHREY. I agree with that.

Secretary BUTZ. I think we may differ on the way to get there. I would like to assure you as one who has primary responsibility for American agriculture, nobody wants to see a prosperous agriculture more than I do. And I want to make sure that everybody understands it. You and I have the same objectives.

Chairman HUMPHREY. What I want to be sure I can read in history books, Mr. Secretary, is that after these years of hard work on the part of the Honorable Earl Butz, Secretary of Agriculture, whenever it is that he may retire from this honored position, that he can say to the American farmer, "You never had it so good."

So, when you go over there to see the President this morning, you tell him, "Let's just take a look at that bill, Mr. President, I have had some doubts about it, and I've been praying over it; and I think maybe we ought to sign it now," that's No. 1. [Laughter.]

And if you can't do that, Mr. Secretary, say that "I told you over there in the committee that I can increase those loan rates, and I'm about to do it, and increase that purchasing power of the Commodity Credit Corporation. And while I may disappoint Hubert Humphrey and a few of the others by recommending a veto, I am prepared to walk in with this second option, the alternative, and save the day."

If you get up high enough and the score looks good, dinner is on me. [Laughter.]

Secretary BUTZ. You sign that.

Chairman HUMPHREY. I'll sign that. [Laughter.]

Secretary BUTZ. We are in agreement, thank you very much.

Chairman HUMPHREY. Thank you very much.

Secretary BUTZ. Would you like my associates to remain?

Chairman HUMPHREY. If you don't mind, I think it would be well to do so. They may be able to answer some questions that are brought up by the other witnesses. Is that all right with you, Mr. Secretary?

Secretary BUTZ. There have been certain times when I'd like to sacrifice them both. [Laughter.]

Chairman HUMPHREY. Thank you very much.

Our next witness is Mr. Jon Wefald, commissioner of agriculture for the State of Minnesota. We welcome you.

If I might make the suggestion, Mr. Wefald will testify, and if there are points later on—because I like the informality, if we can get some interchange here—we would hope you would feel at liberty to make any suggestions you want to make in response.

All right, go ahead, Mr. Commissioner.

STATEMENT OF HON. JON WEFALD, COMMISSIONER OF AGRICULTURE, STATE OF MINNESOTA

Mr. WEFALD. Mr. Chairman, Senator, gentlemen, my name is Jon Wefald, commissioner of agriculture from Minnesota, and I am certainly happy to be here this morning to discuss problems of Minnesota and American agriculture.

First of all, I think it's clear that the farmers and ranchers of the United States are more than willing to do whatever they can to feed America and the world. But they do not want to produce food for little or nothing.

We have heard many comments from political leaders of both parties in the past several years, indicating that food is vital to our national security. And yet, very little over a period of years has been done to make sure that American farmers and ranchers have prices which cover their cost of production plus a reasonable profit.

I have been to many meetings of farmers in the Midwest in the past months. I spoke to 5,000 farmers in the State of Iowa. When you get 5,000 farmers in Iowa or anywhere together, you can rest assured they are concerned.

I talked to 2,000 farmers in Minnesota, and they are concerned. I talked to a thousand dairy farmers 6 weeks ago in Foley, Minn., and I can tell you that the dairy farmers in Minnesota are disappointed; I can tell you that they are a little bitter as well. The farmers in Minnesota and Wisconsin, Senator Proxmire, are losing anywhere from $2 to $3 per hundredweight. In the past 2 years in the State of Wisconsin, 5,000 dairy farmers have gone out of business. In 1974, in the State of Minnesota, 3,188 dairy farmers were lost.

I think it is fair to state that in the last year the American livestock, dairy, and poultry industry has been virtually in a state of depression; that is, with the exception of hogs.

The meetings that I have been to in the past month concern farmers who told me they think the only alternative is to cut back on production in 1975 because they are very concerned about the price they are going to get for their production in 1975; and this is what a family farmer told me.

You know, in 1974 the U.S. Department of Agriculture was predicting about 6.5 to 6.7 billion bushels of corn. We know with the cold and wet spring, the drought, and killer frost it was a little less last year. As a matter of fact, the corn crop was about 4.7 billion bushels, a considerable drop from what the USDA anticipated in the spring of 1974. I think everybody here ought to know that the laws of demand and supply in agriculture were working in 1974; in other words, free trade. In other words, where the price is based on supply and demand for it, corn should have gone up to $5 a bushel, given the supply and demand. It did not go up to that. As a matter of fact, just the reverse happened, even though we had a very short year in 1974, because what some economists call the free market was interfered with by export embargoes. And then on the other hand unlimited dairy and red meat imports came flooding into America in 1972. And those, my friends, are Government tools of intervention.

Now, I want to get down to a basic elementary fact that should concern all of us in American agriculture. I hear it bandied around so much that farm prices are inflationary. Nothing could be further from the truth.

The whole point that we have missed in America in the past 20 to 25 years is the importance of fair farm prices to full production, full employment, and a balanced budget in the United States of America. What we have had in the United States of America over the past 20 to 25 years is little short of what I call a cheap food policy. In other words, where the economists in both political parties have convinced the Commander in Chief and most of the major Government bureaucrats that it is important to America's national security to have fantastic production with little or no return for American agriculture; and that is exactly what we have, and have had over the last 20 to 25 years.

Now, we have had an exception to that starting in 1972, and on into 1973. In 1973, total net farm income was about $32 billion, theoretically the best in our history.

Now, let's just be frank about why the prices went up, starting in 1972.

First. You have the Soviet wheat trade, 17.7 million metric tons, that did empty the storage bins in America; the largest export trade in American history.

Second. The anchovies disappeared off the coast of Peru.

Third. The dollar was devalued twice in a 24-month period of time, thereby allowing the Japanese, for example, to buy a lot of American soybeans because the dollar was cheaper.

Fourth: There was drought in the major feed grain producing areas of the world.

So, it wasn't until 1973 the political leaders and the economists of both political parties decided that the American farmer was going to have a fair return for the first time in 20 to 25 years. It was not that somehow or other, the Government economists and the decision-makers in this country changed their minds in 1972 and 1973 about the importance of having cheap food and plenty of it.

Now, farm prices, from my point of view, at a fair level, are not inflationary. As a matter of fact, I believe the key to the American economy in 1975, and the decade of the 1970's is to make sure that American agriculture is at full production, but at a fair price for what we produce.

And I say to the members of this committee that if we had 5 years in a row the kinds of prices we had in 1973—I'll take 1972, I'll take the prices of 1972, 5 years in a row the kinds of prices that American farmers got in 1972, we would have in the United States of America a balanced budget, with full production and full employment.

You would get the idea, reading the newspapers in this country that the key to full production and full employment in America is to have General Motors sell more cars, and that somehow the key to American economy is General Motors and Ford and Chrysler, and that could not be further from the truth. There is no one here, I am sure, that is not in favor of a fair return to General Motors and all the other automobile corporations. But for anybody to speak directly or imply that the key to America's prosperity and stability for what I call a prosperous economy from top to bottom, is to have big automobile companies sell more cars. General Motors' total assets are about $77 million. In agriculture, we have the Nation's largest industry, $500 billion—seven to eight times greater than General Motors. Yet, we have the press, the newspapers, and everybody else spending every day, and every week, talking about the automobile industry. Then, they think that American agriculture, which is worth over $500 billion, should go into all-out production producing 6 billion bushels of corn, 2 billion bushels of wheat, 1.5 billion bushels of soybeans without any consideration at the end of the road for a fair rate of investment.

In 1973, we had a great year for agriculture, no question about it. Now, for these people that say farm prices are inflationary, I will give you a few examples of what happened in Minnesota. In 1973, because of the kinds of prices that our farmers and ranchers received, do you know what we added to the economy? $1.4 billion. Now, that is exactly the same as if the Governor of Minnesota had gone out and attracted into the Minnesota boundaries 1,400 brand new industries with a payroll of $1 million each. In 1973, industrial production in Minnesota went up 18 percent; jobs went up 7 percent; bank debits went up 35 percent, the highest since that period from 1942 to 1952, when we had over 90 percent parity every year for our American agriculture.

Do you know that we have a $400 million surplus in the State of Minnesota now; yes, $400 million. The reason Minnesota has a $400 million surplus now is because of the earned income and new wealth that only raw materials can generate. We have had cheap food economists in control for 25 years in America. I think everybody should understand that there is a period of time in American history, from 1942 to 1952, when in every single one of those years, farmers received a fair rate of return on their investment. And what happened? We paid for World War II. In 1947, we had unemployment in this country of 3.9 percent; in 1948, unemployment was about 3.8 percent, and this with 3 million American boys coming back from Western Europe and Japan. Why? Because American agriculture was producing virtually all out, but there was a guarantee at the end of the road that he would get a fair rate of return on investment, and he did. In almost every single year from 1946 to early 1950 America was almost at full production, full employment, and would you believe, a balanced budget. In almost every one of those years we had a balanced budget in the United States of America. Now here we are talking about a $53 billion deficit.

Chairman HUMPHREY. You are behind times. The administration still holds to the figure of $60 billion, but it is closer to $70 billion. I just thought I would bring that up.

Mr. WEFALD. I don't think it's all that complicated; these economists have made it far more complicated than it really is. The key thing is the income that raw material producers generate in this country, if we give them a chance; they want to produce all out. But, at the end of the road there's got to be a fair rate of return on investment.

Now, you know people talk about what's inflationary. Now, we have a $60 billion national debt right now. We spend every year about $33 billion to serve that debt; it doesn't multiply; it doesn't go anywhere; it is a negative factor; that is just to service the national debt.

Now, my point is, the greatest year, as the Secretary has indicated, in America in 1973 was $32 billion, $1 billion less than what it is going to take in in 1975 just to service the national debt. Now, that $32 billion that the Secretary is talking about in 1973, that starts multiplying five to seven times. It is very simple, if we have a $52 billion deficit right now in the United States of America, it is because of very unfortunate and ill-timed economic policy, like export embargoes and dairy and red meat imports that drove American agriculture down. To put it another way, if we had continued on into 1974 with the livestock and dairy industry making money, I will say right now that the United States of America would have a balanced budget, not a deficit of $52 billion; that is where the economists are missing the point.

The economists are all in favor that General Motors and the AFL–CIO do well in 1975, and 1976, and 1977, you know, that the big corporations have a return on their investments of 10 percent; that the wage earners should get 7 or 8 percent, but somehow for the largest industry in the world, American agriculture, they should produce for less than what they got in 1947.

Now, here we are arguing about the loan target rate for 1975. Now, Senator Humphrey, the loan on corn in your target bill is $1.87 for corn, and it's $2.50 for wheat. And a lot of people are saying, "Well, this is too much; this is going to be inflationary."

Now wait a minute; in 1947 corn averaged in America $2.08 a bushel; in 1947! Now, the loan rate that we are talking about on wheat is $2.50. In 1947, wheat sold for $2.50. Well, what happened between the late 1940's and 1975? The cheap food economists won out, the economists who believed that they would solve the problems in America through cheap food and debt expansion. All I am saying to you is, if all three legs of the American economy are strong and vital and prosperous this country will have a balanced budget virtually every year, and full production.

Senator, that completes my statement.

[The prepared statement of Mr. Wefald follows:]

PREPARED STATEMENT OF HON. JON WEFALD

Personally, and on behalf of my associates here today representing the State Departments of Agriculture and the 233,000 farm families in Minnesota, Pennsylvania and South Dakota, I thank the Chairman and the members of the Joint Economic Committee for this opportunity to testify on matters of mutual concern and urgency, for agriculture and for the nation.

Agriculture is the key to a prosperous, stable America.

Agriculture produces essential food and fiber not only for our own population, but it is still the major resource available for combatting the acknowledged world food crisis.

Although only about five per cent of our national population is engaged in the industry of agriculture, that small group of farm people provides the base for four of every ten urban jobs. Assets of American agriculture are more than seven times those of General Motors, one of the world's largest private corporations.

Agriculture is the very foundation of our economy as well as the provider of the essentials of life itself.

Fair farm prices are essential for a prosperous agriculture and the economic recovery of our nation now in recession.

Unfortunately, the cheap food economic theory still prevails in Washington, holding agriculture under a terrible cost-price squeeze and undermining our national ability for the economic recovery so desperately needed.

The migration from the farm to the city since the 1950's is virtually the largest migration of people in the history of the world. . . . three million farmers and 25-million rural business people displaced in a single generation.

For the first time in 20 to 25 years, farmers enjoyed one brief flirt with real prosperity in 1972 and 1973 and, in part, into 1974. But the reasons for the upsurge in farm prices were not because the cheap food economists changed their minds—but rather the farm price increases were due to the anchovies disappearing off Peru, severe drought in other major feed grain producing areas, two dollar devaluations in less than two years, and the Soviet wheat trade. All these factors combined to allow the law of supply and demand to work in favor of agriculture for the first time in 25 years.

But the farm prosperity lasted only briefly. The Administration unleashed some powerful government weapons—unlimited dairy and red meat imports on the one hand, and grain embargoes and monitoring on the other.

First, it was a decisive government intervention policy to allow unlimited quantities of dairy and red meat products that moved the dairy and livestock industry into a massive depression in the past year and a half.

Second, it was a government policy of embargoes on grain exports followed by strict grain export monitoring that has driven grain prices down sharply in recent months.

Agriculture, consumers and America need your support. They need it now. Our essential industry of agriculture is in a crisis without parallel since the middle 1950's.

Our national economy is in the deepest trouble since the Great Depression.

As I see it, these problems are inseparably related, but in reverse order to the predominant expert Washington opinion that farmers are in trouble only because of adverse weather, inflation and the national recession.

America is in recession because too many farmers are in an actual depression.

Farmers are no less humanitarian than any other American. In fact, history has repeatedly demonstrated the outstanding patriotism and generosity of our American farmers, responding equally to national and international crises with increasing production of always cheap food and fiber.

Today, agriculture is fighting for its very survival.

Bankruptcies and foreclosures, coupled with little hope or confidence in the federal government, have made many people in agriculture angry, heart-broken and desperate.

That is why a grassroots farm revolt is now sweeping through much of Middle America, pledging significant reductions in 1975 food production.

While farmers don't want people in the world to go hungry, they cannot produce food for nothing, or as is the actual case for most of our dairy, livestock and poultry farmers this past year, at losses that are destroying everything they have worked long and hard to accumulate.

Action taken by farmers now is a phenomenon quite unlike any movement in the past war era. This is possibly the greatest grassroots movement since the Farm Holiday Movement of the 1930's.

Farmers now understand that the only way they can gain recognition is to employ the same strategy that has been successfully used by big business and big labor throughout much of the 20th century.

Even at my level closer to the farm constituency, I am aware that the number of farmers who contact me personally represent only a fraction of the problem.

For example, I have found the mounting volume of farm credit complaints these past three months frightening and frustrating . . . compounding the distress calls from dairy and beef farmers during most of last year.

It is apparent to me that something is seriously wrong with the federal farm credit program, and specifically with the agricultural disaster and emergency livestock loan program.

Like the members of Congress, I had thought that the legislation you enacted in 1973, amending the agricultural disaster loan program, and the 1974 Emergency Livestock Loan Program, really solved the emergency credit problems of our farmers.

For too many that is not true.

Either there is a serious defect in the legislation, or more likely, it is being discriminately administered by the United States Department of Agriculture.

Hundreds of Minnesota livestock, dairly, poultry and even some grain farmers have been refused disaster loans and emergency livestock loans.

They are being rejected on two principal grounds, inadequate collateral or the judgment that the applicants would be unable to timely repay the loans. At current prices, few farmers could meet the latter qualification.

Minnesota had the most adverse and costly series of weather disasters in history during 1974 and continuing into early 1975. Seventy-two of our 87 counties have been granted federal disaster designations making farmers eligible for the emergency loan programs. Applications are still pending for at least two more counties. Weather and livestock economic losses are estimated at upwards of $2-billion.

If there is in reality a collateral requirement for disaster and emergency loans, it should be tempered by the Congress. I am aware only that the law suggests "reasonable security" is required.

The experience in Minnesota has been anything but reasonable. Is it reasonable for the FHA to demand $3 of collateral for each $1 of disaster or emergency loan? Is it even reasonable to insist upon $1 of collateral for each $1 of disaster or emergency loan? We have had both situations in Minnesota, the first applied by local FHA authorities until we obtained a reassurance from the federal office that collateral need be only $1 for $1.

Is it fair to deny a struggling young farmer who had his crops destroyed by flood, hail, drought or the record early killing frost his eligibility for a disaster or emergency loan because he is a renter or sharecropper and has no equity in the real estate? That has been done in Minnesota.

Is it fair to continue to shuffle the paperwork and delay processing on disaster and emergency loan applications for 90 days, for 120 days, the delay itself further destroying the capital and credit resources of livestock farmers and inhibiting the ability of grain farmers to put in their crops this spring? That is being done in Minnesota.

Is it fair for the Farmers Home Administration to arbitrarily reject the value of collateral certified by the Federal Land Bank, the Production Credit Association and by qualified commercial appraisers? That is being done in Minnesota.

Is it fair for the Federal Land Bank and the Production Credit Association to foreclose on farmers because the collateral value of livestock has been cut more than in half just in the past year because of the farm policy manipulations of the federal administration? That is being done in Minnesota.

These, unfortunately, are not singlar isolated cases, but a massive repetition of problems experienced this past year and still being experienced in Minnesota.

How do you respond, either at the state or congressional level, to the distress of previously successful young farmers denied any federal assistance they deserve and desperately need. I could recite case after case.

Bankers, who have confidence in their livestock farmers, have pledged their personal assets to meet collateral requirements on some of these emergency situations. Several country banks in Minnesota have been warned by the state regulatory agency that they are risking violation of credit restrictions because of their determination to give farmers a decent chance to save their family home and career.

Country bankers, often cast in a scrooge stereotype, are really the best friend that our most distressed farmers in Minnesota have found today. By comparison to the Farmers Home Administration and the credit policies of the U.S. Department of Agriculture, Minnesota country bankers could be considered philanthropists. Actually, they are good sound businessmen concerned for the welfare of their community and exercising their best judgment.

Overall, farmers have been attempting to communicate their desperate situation to the federal government for the past year.

Farmers are worse off today than they were last year, and many are in a desperate cost-price squeeze. In mid-March, according to the latest official figures available from the U.S. Department of Agriculture, nationally the farm parity ratio was down to a new low of only 68 per cent. General Motors and the AFL-CIO would never settle for that.

The USDA and the cheap food economists don't like to talk about parity ratios. They would like to eliminate that economic measure from their vocabulary.

They have compromised it with a 1967 version of the traditional 1910–14 index to further the propaganda that farmers really have never had it so good.

Try to convince the Minnesota Lake Livestock farmer who was foreclosed on the Mankato Courthouse steps by the Federal Land Bank on April 10 that he never had it so good . . . or the too many more farmers similarly being threatened with foreclosure throughout Minnesota and the Midwest.

Sure the farm collateral is down. Why shouldn't it be, with federal policies cutting the gross income of Minnesota farmers from meat animals sold in 1974 by more than $180-million, the gross income of Minnesota turkey farmers by another $63-million. Gross income from farm milk production was scheduled for release on April 21, and undoubtedly will show another considerable loss.

These figures only relate to gross income, not to the actual loss that Minnesota's dairy, livestock and poultry farmers have experienced. We estimate the loss at upwards of $500-million, and that is out-of-pocket after paying expenses. That figure is continuing to climb every day, every week, right along with still increasing costs and disaster level prices that farmers receive for milk, meat and eggs.

On the basis of the U.S. Department of Agriculture mid-March farm price report, the price of hay in Minnesota set an all-time high of $53.50 per ton. Hay is an essential feed input for livestock production, particularly at this calving and lambing season. Dairy and beef farmers actually have had to pay as high as $90 per ton for good quality alfalfa hay in the most critically short areas of central Minnesota.

The same mid-March report revealed that the Minnesota wool price was a 3-year low of 25 cents per pound, that on top of an earlier report that depressed prices and high costs cut Minnesota's 1974 wool production to the lowest level in 51 years, and gross income from wool by 40 percent from the 1973 level.

Minnesota's mid-March farm chicken price was only 3 cents per pound, the lowest in history and egg prices farmers received were the lowest in eight months.

In other words, federal policy and the market structure is continuing to erode agricultural collateral that is essential either for commercial or federal disaster and emergency credit.

A year ago the average value of Minnesota's milk cows was $560. In mid-March 1975, the higher producing average Minnesota milk cow was worth only $325, on paper. In actual sales, dairy farmers have been lucky to get $200 for a good sound dairy cow that just a year ago would have brought upwards of $600.

Milk prices are dropping again nationally. Even the national average price of $8.17 per 100 pounds in mid-March was only 74 per cent of parity. But Minnesota's dairy situation is far more desperate, 14 per cent behind the national parity ratio. It is easy to forget in Washington that Minnesota and North Dakota farm milk prices are the lowest in the entire nation, while production costs are above national average, because of our distance from the major consumer markets that are dependent upon our agriculture industry.

Natural disasters and the closing of the federal credit valve are hurting Minnesota agriculture. Over $1.2-billion was lost by Minnesota farmers last year due to the unprecedented series of weather disasters. . . . Name it and we had it, one of the latest spring planting seasons in history, floods, hail, tornadoes, two months of drought, then an August 30 killing freeze, making it the shortest crop growing season in history. Add our dairy, livestock and poultry industry losses and you have an estimated $2-billion overall loss that Minnesota agriculture and the state economy have had to absorb in the past year.

I have just related our estimate of a $2-billion loss that Minnesota alone has experienced this past year due to natural disasters that destroyed crops and economic disasters that are destroying dairy, livestock and poultry farmers. President Ford's budget for disaster and emergency loans for fiscal 1975 provided only $592-million for the entire nation's agriculture industry.

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The survival of agriculture is vital to the survival of America and for the 25 per cent of the world's population that is dependent upon American farmers for essential food and fiber.

American farmers now represent only about one-tenth of one per cent of the world's population.

American farmers are the most efficient in the world, and the most productive workers in this nation's entire labor force, according to official federal statistics.

American farmers produce 80 per cent of all the world's feed grain and two-thirds of all the wheat.

Can we really afford to lose any more American farmers?

Like the buffalo, the elm, the trumpeter swan and the eagle, the farmer might very well be a vanishing American.

We have taken significant action to preserve and maintain the other vanishing species. Why not the farmer?

Federal rural development programs are a farce unless we do save agriculture, for the rural communities and agriculture are interdependent upon each other, and grow or survive together.

Farmers needs and deserve incentive to survive.

They need fair prices that will insure a return of actual production and overhead costs plus a reasonable profit. They need an adequate source of credit for normal operations—especially to recover from natural and economic disasters inflicted upon them by weather, by unfair foreign competition and especially by a consumer oriented federal government.

America will have a balanced budget and full production only when agriculture is healthy and prosperous.

Only raw material producers can generate the earned income and new wealth—that multiplies through the economy—that will give this nation the opportunity for full production, full employment, and a balanced budget.

The Congress can play a vital role in seeing to it that farmers and ranchers in America get fair and equal treatment.

Chairman HUMPHREY. What is the average price of milk in Minnesota now, Mr. Wefald?

Mr. WEFALD. Oh, I would say——

Chairman HUMPHREY. Manufactured milk, not fluid milk.

Mr. WEFALD. Dairy farmers in Minnesota are right now getting about 64 percent parity.

Chairman HUMPHREY. How much is that in dollars?

Mr. WEFALD. Less than $7 per hundredweight.

Chairman HUMPHREY. Less than $7.

Mr. WEFALD. Less than $7.

Chairman HUMPHREY. As I recollect, the price of milk in December of 1973 was about $7.95, is that right?

Mr. WEFALD. That's right. And of course we commissioned a cost study by the University of Minnesota just recently, the farm school, and they estimated that $9.50 might bring them up to cost.

Chairman HUMPHREY. The University of Minnesota figured out that it would take $9.50 per hundredweight to break even.

The distinguished economist is here, whom I greatly admire, Mr. Paarlberg. The Department of Agriculture spreads the propaganda that if you raised the price support on milk, if you put it to 85 percent parity, it would be approximately 30 cents less per hundredweight than you got in 1973.

Mr. WEFALD. That's right.

Chairman HUMPHREY. That is 30 cents a hundredweight, 30 to 40 cents less than the farmer and the cow received in December of 1973. And yet, we are told if you give that farmer 50 cents less than he got in 1973, that the price support is going to cause an inflation in milk prices. An inflation in milk prices has got nothing to do with the cow; it's got something to do with the can, or the bottle, or the carton, or somebody that fusses around with it. But as far as the old Jersey cow is concerned, there is still a ripoff, and I think it's time that is understood.

And I am glad to have the distinguished representatives of the Department of Agriculture here because I'm fed up with having people say that folks out in my country—they've got $300,000 invested in a dairy farm under the most stringent regulations in sanitation and safety; they work 7 days a week—and I've never found a 40-hour-a week cow yet—that those people are not entitled to at least get what they were getting 2 years ago, almost 3 years ago.

I wonder how the newspaper reporters would like it if they were getting what they got 3 years ago; I wonder how anybody else would like it. And every day we read a crock of nonsense that if we give a dairy farmer a fair price for his milk, that you are just going to be taken for a ride at the supermarket. Well, you may be taken for a ride at the supermarket, but it isn't old Bessy the cow, it's A & P, or Safeway. And I wish, Mr. Secretary, having heard you before, that you would give a little comment on this because I am getting sick and tired of having 5,000 dairy farmers in Wisconsin liquidated in 2 years, and 3,500, or so—what is the number in Minnesota?

Mr. WEFALD. In 1974 it was 3,100.

Chairman HUMPHREY. About 3,000 or so in the State of Minnesota. Listen, if we had in the State of Minnesota 3,000 people laid off at Honeywell——

Mr. WEFALD. It would make the headlines in the newspapers.

Chairman HUMPHREY. And they were working below the minimum wage, and they had to work 60 hours a week, and they got no time-and-a-half for overtime—you would have every preacher, every schoolteacher, every social worker, every Republican and Democrat politician saying that, "This is slavery, this has got to stop." And not only that, it would be an outrage. But as long as it's some poor farmer out there they say, "Well, you know, that's the market; that's the free market; that's the way it works. Too bad for old John, but dig him a grave and bury him out there; that's the way the market works."

I can see tears filling the rivers if you had 3,000 people laid off—if you please, just listen to my analogy—working below the minimum wage, which the farmer gets; working 60 hours and more a week, getting no time-and-a-half overtime; and he is getting very little other protection; he is getting no pension, no medical, none of these fringe benefits. Right away you would have an outrage; they would have marches on the Capitol. Why, we would have even the most conservative of Republicans and Democrats joining in it, say, "Why, this has got to stop." We'd be passing bills in Congress for humanitarian relief.

We have all these very educated, fine people, economists, journalists, politicians, all these photographers, what have you—we have them all here and they say, "Well, that's the way the market works."

Do you have any comment on that little analogy, Mr. Wefald?

Mr. WEFALD. Well, it'll take about 3 or 4 hours.

Chairman HUMPHREY. Well, you go ahead, slim it down. I'm very serious about that. I am tired of the Government of the United States spewing out sheer political nonsense and economic drivel. And I want to know how come a farmer gets 40 cents less a hundredweight for his milk now if he got 85 percent parity than he got 2½ years ago; how come he would be responsible for the increase of 2 cents a pint—or whatever the figure is—in the supermarket?

I don't doubt that it goes up in the supermarket; I don't doubt that at all. But why not pick on the right guy.

Mr. WEFALD. Going into late 1973 and early 1974, the return to the dairy producers in America was moving up. As a matter of fact, I think you could say that in January of 1974 most of the dairy farmers in Minnesota and Wisconsin, and the Middle West, were reasonably satisfied with the kind of return they were getting. As a matter of fact, in Minnesota it was up over $8.25 a hundredweight.

Now, what happened to that dairy price? Very, very simple; the Government entered into a policy of unlimited dairy imports that in the space of 3 to 4 months eliminated from the dairy farmers about 25 percent of their income.

I told a lot my friends in Minnesota and Wisconsin who couldn't understand that the dairy farmers got so irritated, "How would you feel if you picked up your check on Friday, and all of a sudden your employer subtracted 25 percent of your total income? You would not only be disappointed and heartbroken, you would be very, very angry."

Chairman HUMPHREY. They would be on strike, let's face it; they would be on strike. And if the farmer quits milking the cow, they say he's unpatriotic.

Mr. WEFALD. Now, by the Department of Agriculture's own figures the parity ratio right now is 68 percent. I just want everybody to know that General Motors and AFL–CIO would never settle for 68 percent parity. And this has nothing to do with Republican or Democrat, because over the last 25 years we have had a cheap food policy. Over the last 25 years we have had a cheap food policy in America. We have an articulated policy of having farmers and ranchers go all out and produce, produce, produce, and getting less and less of a return.

Let me give you an example. In 1947 total net farm income was $17.1 billion—$17.1 billion. Now, isn't it interesting that it is not until 1972 that we topped that? Now, the Secretary just indicated in 1972 we went up to about $17.5 billion. Now, isn't it incredible, from 1947 until 1972 there is no year in there where we come close to 1947. And as a matter of fact, it's clear that from the early 1950's on there was all-out production with no programs, and a cheap food policy, and farm income goes down, down, down. Then, in the early 1970's it starts going back up again. The point is that after over 20 years we finally, in 1972, get back to where we were in 1948.

Now, can you imagine the president of General Motors in 1972 standing up in front of his board of directors and saying, "The best year General Motors has ever had was 1947 or 1954, and so forth; can you imagine the president of the AFL–CIO getting up next week before all his employees and saying, "The best year for the organized workers of America was 1965?" And yet, in American agriculture, this is what we have been plagued with for 25 years. We have to go back to the period from 1942 to 1952 when farmers got a fair price.

In conclusion I say, I know what happens when rural America gets proper production for a reasonable price. What happens? Everything, full production, full employment, and a balanced budget.

I also know what happens when rural America doesn't get its fair share because in the past 25 years we have lost half of our farmers and ranchers; and those 3 million farmers and ranchers have taken with them to the cities of America 25 million other Americans, which represents the largest migration of people in the history of the world. I think that has got to stop. I think we've got to come up with an economic policy of commonsense and the rule of reason that includes into the overall economic package of America a fair price for corporations, a fair return for the working men, and most importantly, a fair rate of return for the largest and most efficient industry in America, the American farmer.

Chairman HUMPHREY. Senator Proxmire.

Senator PROXMIRE. Well, I am delighted to have an opportunity to hear you this morning, Mr. Wefald.

I was out in my State about 2 or 3 weeks ago, in the western part of the State, and my home secretary told me I'd better keep an eye on that fellow Wefald, commissioner of agriculture in Minnesota. He said, "An awful lot of people are talking about him," and I think he said, "Hubert Humphrey had better keep an eye on him."

Chairman HUMPHREY. I do.

Senator PROXMIRE. He said they are talking about him for Governor, they are talking about him for President, and they are talking about him for Senator. [Laughter.]

Chairman HUMPHREY. I think Senator Mondale ought to remember that. [Laughter.]

Senator PROXMIRE. Well, you are very popular in Wisconsin and Minnesota, the dairy farmers think you are great. I knew you spoke in the places you have mentioned and the enthusiastic support you are getting.

I would like to ask you in a little more detail what to do about it. And before I do that I would like to talk about some of the cases you have made here today. I would like to point out, for example that farm product prices, the prices the farmer receives for his products have dropped from an index of 202 to an index of 165 in the last year; in other words, they have dropped 18 percent. Meanwhile, the price of food has risen 8 percent. Farm prices dropped almost every month last year, and the price of food went up almost every month last year. This is the puzzling thing for the consumer: How the farmer gets less and less, and less, and the housewife has to pay more and more, and more. That is one aspect of it.

Now, the other aspect that I think we ought to put in hard figures is the actual amount the farmer is getting. Incidentally, the parity index, we have just gotten this table with the statistics, is lower now than at any time in the chart, it goes right off the chart, down to 68 or 69 percent of parity, depending on the definition that you use.

But what appalls me most of all is when they put that into 1967 dollars and compute the farm net income, including inventory changes; and there we find in the first quarter of 1975 it's down to $4,080 per farmer in this country. Now, that is compared with $8,000 for the first quarter a year ago, $5,970 in the second quarter, $5,950, $5,590, and now it's down to $4,080, that is well below the poverty level, and that is the average farmer; and that is after a period when inefficient, small farmers have been driven from the farm.

So, I think that the case you have made is absolutely devastating, there is no question that the farmer is not getting a fair break; there is no question this has a bad effect on our small towns, big cities, and the rest of our economy.

But I am still puzzled as to what we do. I have heard your condemnation of export embargoes, which is very logical; your support of the target loan figure; your talk of cheap food policies, but what specifically do you think this Congress can do to meet our problem?

Might I point out that I agree wholeheartedly that farmers have to have the opportunity to earn a fair income, a fair return, and we don't guarantee a return, anyway.

Mr. WEFALD. I appreciate that.

Senator PROXMIRE. As a lot of you know, in the first quarter of this year American corporation suffered the sharpest drop in profits in 40 years, and there are many firms that are losing money; so nobody is guaranteed a profit.

What, then, do you propose that we can do in this Congress to solve the problem?

Mr. WELFALD. Well, Senator, first of all, you see, the problem that we are talking about in 1975, or 1974 to 1976 evolves from the fact that we had a cheap food policy for 25 years. In other words, the Government officially had a policy that meant that the farmers would get very little, if any decent rate of return.

Second, farmers by definition are unorganized, and always have been. Farmers, as the second half of that same coin, as the Secretary said, have never been able to operate like General Motors.

Senator PROXMIRE. Well, that is true of the 5 million small businessmen in this country, they can't operate like General Motors, either.

Mr. WEFALD. No; but I mean, farmers especially are operating in a highly organized Nation and world, in a very unorganized framework. So, the toughest thing of all is the very question you asked, What can the Federal Government do about it? I think that the target bill under consideration right now is a step in the right direction.

I think that the whole point of the target bill is that it represents some kind of a floor. And the reason for it is, especially since the Soviet wheat trade, we have all learned that food is vital to our national security. In other words, plenty of food for a reasonable price for Americans; and we are only one-tenth of 1 percent of the world population, yet, we feed 25 percent of the world; this Government and this Congress have to address themselves to the fact that if they want farmers to produce all out, they have to provide some kind of a safety net.

And I use as an example, when we asked General Motors to produce new tanks, we did not say to General Motors, "Well, you produce all the tanks you want to for whatever price you can get for them," they got signed, sealed, and delivered contracts, and not only that, but with escalator clauses in them, you know, for inflation and everything else.

Senator PROXMIRE. Well, that was produced for the Government.

Mr. WEFALD. Yes.

Senator PROXMIRE. We don't provide safety nets in the private sector.

Mr. WEFALD. That's right. But I think if we are going to start out, by definition, that food is essential to every American, then I think the

American people have to share part of the risk, that is what I am saying. The American people have to share the risk. Food has been the best buy of anything for years and years in this country; and the only way it is going to continue to be fairly reasonably priced is if the very efficient farmer stays in business.

So, I think the Government has an obligation to try and work out with farmers some kind of safety net; and the target price, as I say, is a step in the right direction.

Senator PROXMIRE. What do you see as the ultimate action that government can take?

Mr. WEFALD. I think that if——

Senator PROXMIRE. Do you think they ought to work toward organizations such as the National Farmers Union, for example, or should we permit and encourage farmers to limit production—limit their production enough so the markets will give them a fair price? Do you think that kind of thing should be encouraged?

Mr. WEFALD. Well, I think all of us as public officials should encourage farmers to join farm organizations, try to organize themselves, I think that is clear, I do that myself. I encourage farmers to get together. That is one of the reasons I supported this farm cutback because it is so refreshing to see farmers actually starting to think as businessmen.

Senator PROXMIRE. The difficulty is that if we rely on the political processes, the farmer gets in a weaker and weaker position. I remember only a few years ago, 25 percent of our people were farmers, and now it's 5 percent, it gets less all the time.

Mr. WEFALD. Five percent or less.

Senator PROXMIRE. It seems to me the answer for them is to find some way of organization, every other phase of our economy is organized to some extent.

Mr. WEFALD. Like I say, I certainly encourage farmers to get together, there are 2.8 million right now. So, in terms of numbers, it seems to me, they are getting to a point where they start thinking more like businessmen. And like I said, that is one reason I supported the farm cutback. And like the Secretary of Agriculture even said, it was spontaneous, it was original, it was ad hoc, it was unorganized. And I don't think anything like that has happened in the post-World War II period. And the reason for it is, I think the farmer is getting smarter. I think they are beginning to understand the law of supply and demand; in other words, they don't want to produce more than the market that is there.

But like Senator Humphrey said, I don't know whether they will actually do that or not, because it is a very voluntary type thing.

It just seems to me when you look at the pattern of American agriculture in the 20th century, here they are unorganized, and it's 1975. Much as it might be unpleasant for a lot of people, the Federal Government is there, and there is a lot more that they can do. Certainly, the Federal Government can't solve all of our problems, there is no question about that. But there is a lot they can do to get up some kind of a floor, so that our farmers and ranchers are encouraged to produce all out, all the corn and wheat and soybeans and dairy products.

You know, I think if the Government worked with agriculture and set up what I call a food program, where we carry over reserves from each year and if our farmers and ranchers were assured cost of production plus a reasonable profit, we could actually be in a position to give away a lot of our food to those countries and those people that cannot afford it. The key to the whole thing is a fair price for the farmer. If the market price is fair, they will go into all-out production, and we will have enough food for much of the people in the whole world.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

Chairman HUMPHREY. May I say, I have been called to another committee, and I will be gone for a few minutes, I will be back. I am going to ask my colleague to take over the Chair for a while, and I'll be back.

I just want to, before I leave, throw out a comment, and somebody may want to toss it around while I am gone. As you know, the President and Mr. Kissinger endorsed a plan to set a floor price on oil of $7 a barrel, more than double the 1973 level. In other words, the administration knows that when you set that price on oil, you also set the price on coal, you set the price on all alternate fuels. And we produce an awful lot of coal in the United States, just as we can produce an awful lot of agricultural commodities.

I wonder if Mr. Paarlberg might want to think about that while I'm gone. Why is it that it is highly desirable that the President support Mr. Kissinger's proposal for a floor price for oil, the rationale being to assure domestic production, an adequate supply from abroad, and to make sure that it is at least more than the cost of production at home; and yet hesitates to have any kind of a floor price on agricultural products. And I might add a floor price that takes into consideration the cost of production, and possibly slightly above it.

I just wonder if there is anyone that can explain the administration's policy as it relates to oil on the one hand, and not only oil, but coal and all other forms of energy because they are all interrelated—and maybe you can kind of bite on that while I'm away.

And I place in the record the study that was made on behalf of the Senate Committee on Agriculture, relating to the variable cost of production, including a reasonable and agreed-upon small percentage for land use for the commodities of corn, wheat, and cotton. It shows, for example, the cost of one bushel of wheat; taking as an example the State of Indiana, $2.04 for corn, according to Purdue University, and wheat $3.18. In Iowa, corn because of the nature of the soil $1.82 for cost of production; and in Missouri, $1.85; South Dakota, $1.80; Ohio, $2.42. And yet, when we come down to the loan levels that are recommended in the new bill, they are frequently below even the cost of production as agreed upon by the so-called land-grant colleges.

But, my point was for the gentleman from the Department—and Mr. Paarlberg is an extremely able man—here we have the President and the Secretary of State on what we call a floor price that guarantees more than the cost of production. And there is a reason for that, don't misunderstand me. I don't think it came just out of the blue air, we've got oil problems, we've got energy problems.

But then, when it comes to food, listening to what Mr. Wefald has said, I just wondered if there might not be some explanation that the administration might want to place the record. And I place in the record the figures that I have here.

[The study referred to is as follows:]

SUPPORT LEVELS AT VARIABLE COSTS

Mr. Ford, in his Economic Report of the President called for price support levels sufficiently high to cover the *variable* costs of crop production.

Presently, the target level for corn is $1.38 per bushel; and the new farm bill would raise it to $2.25. The present loan level is $1.10; the new farm bill has $1.87.

The present target level for wheat is now $2.05 per bushel; the new farm bill would raise it to $3.10. The present loan level is $1.37; the new farm bill has $2.50.

The present target level for cotton is now 38 cents a pound; the new farm bill would raise it to 45 cents. The present loan level is 34 cents; the new farm bill has 38 cents.

The Senate Agriculture Committee recently released data on corn, wheat, and cotton variable costs of production—including an adequate return on capital held as land. The results:

VARIABLE COSTS OF PRODUCTION, INCLUDING A RETURN ON LAND, 1975

State	Corn	Wheat	Cotton
Alabama			$0.35
Arkansas			.41
Georgia	$1.95		.52
Indiana	2.04	$3.18	
Iowa	1.82		
Missouri	1.85	4.10	
Nebraska	1.76	3.80	
Ohio	2.42	4.13	
South Dakota	1.80	2.80	
Present target level	1.38	2.05	.38
New farm bill target level	2.25	3.10	.45
Present loan level	1.10	1.37	.34
New farm bill loan level	1.87	2.50	.38

Chairman HUMPHREY. I will leave, Senator Proxmire. Excuse me, I'll be back.

Senator PROXMIRE [presiding]. Congressman Brown of Michigan.

Representative BROWN of Michigan. I would like to pursue a little bit Senator Proxmire's line of questioning. I think we all in part agree, as Secretary Butz said; we all have the same goal and objective, but we may differ on means. What more specifically should we do? Can you expand upon what you suggest it should be, our governmental policy to accomplish the end you desire? You obviously don't want us to limit exports and think we ought to do something about imports.

Mr. WEFALD. Yes.

Representative BROWN of Michigan. But from the standpoint of the Government program, what should be that program?

Mr. WEFALD. When I think about Government programs, I don't have to count on my imagination; all I have to do is think back to 1942–52, that period.

The Secretary indicated that many Government programs in the past 25 to 30 years have not worked. And over the past 25 to 30 years I would agree with him, they have not worked, they have been mismanaged, there has been shortsightedness and everything else. But we did have a Government program for a whole 10-year period of time that worked very, very well. And I take a 10-year span because you can't just say World War II and the increasing demand that World War II generated for agricultural products, because by 1946 and 1947, we had 3 million American boys coming back. That caused, by definition, a very severe job dislocation, and all kinds of other problems.

But in that period, let's take 1946 to 1950, with the Government program at that point, with a parity ratio of 90 percent to 110 percent, it did work, and worked very well.

And this was changed in 1953 and 1954, where they just kind of forgot the ratios and went into all-out production, and really scaled down all of the Government price programs and all of the rest we were plagued with from that point on.

But Government programs, as much as we would like to tell you that farmers can do without them, they are not able to do without them. But we did have a program from 1946, 1947, 1948, 1949, 1950, 1951, and 1952 that was working every year. And let me say that parity on agriculture during that time never went below 90 percent. So I think we can do it because we had it for a period of time.

Representative BROWN of Michigan. Let's look at that period, as compared to the present period. You indicated that net farm income basically was the same.

Mr. WEFALD. From the early 1950's to 1972, that is corect.

Representative BROWN of Michigan. What about the cost of food to the consumer in those two comparable periods, was that the same?

Mr. WEFALD. Of course not. What is your point?

Representative BROWN of Michigan. If the cost to the consumer was not, the same, then obviously, the cost to the consumer does not reflect returns to the farmer. And it seems to me because I quite agree with you, we haven't gotten the consumer to appreciate the necessity to commit a greater portion of his or her budget to food. I remember when we were holding hearings on the Economic Stabilization Act in 1970, I guess it was, that the average American family spent only 17 percent for food; the next lowest was something like 24 percent in the United Kingdom, if I remember correctly, and from then on up.

Mr. WEFALD. Yes.

Representative BROWN of Michigan. But then you have to look at that in the context of what the consumer will do if he has to commit more of his budget to food prices. When we had beef prices go up, we had a boycott, and other negative consumer reactions.

Isn't the real importan thing for agriculture to get is the consumer to recognize the significance of food in his budgetary priorities?

Mr. WEFALD. Absolutely, I couldn't agree with you more.

Representative BROWN of Michigan. So, how do you do that?

Mr. WEFALD. This is really my major point. The major point is, first you start with the Department of Agriculture, they have to be the most articulate group to educate the American people that a cheap food policy is not in the national interest.

Representative BROWN of Michigan. Secretary Butz regularly speaks out on behalf of farmers and attempts to convince consumers that they really have had too good a break for too long. I haven't heard anyone else attempting to articulate that position.

Mr. PAARLBERG. Mr. Chairman, could I break in, with the indulgence of Mr. Wefald?

There are several points I would like to make. I have heard much reference now to the cheap food policy that the United States has had for all these past years. Now, I myself have been in the Department of Agriculture a good share of the time over the last 20 years, and a great amount of that time I have been charged, as a Government official, to administer the programs that were developed by the Congress; and these were intended, over the greater share of the time, to reduce the supply of agricultural products, and therefore to increase the price of farm products. We have piled up vast amounts of food in an effort to shore up the market, and so to put the price up.

I do not understand how Mr. Wefald can say that over this whole period of time we have had a cheap food policy. When I add up the dollars we have spent for it, I can't come to that same kind of interpretation; that is point No. 1.

Point No. 2 I want to make is that economic events are far more potent in determining the situation in agriculture than he indicates, he attributes these improvements and declines in farm income to legislative events. The time that he points out having been very favorable, it was, during 1946–47, right after World War II, when that pent-up demand was suddenly released and prices shot up; or the Korean war during 1951, when there was inflation and again food prices shot up and agriculture was prosperous; and then the recent period in 1973, which was a result of a world food shortage. These events vastly eclipsed the policies that were vented by the Congress in determining what the economic situation is in agriculture.

And the final thing I want to say, a comment on Chairman Humphrey's question as to the difference between a floor price for oil, and a floor price for food—and I am not an expert in oil. But you do understand that the intention there is to stimulate the production of fuel from domestic sources, that is the main purpose. We do not have a like need in agriculture. In fact, the chief concern that Mr. Wefald has expressed is that we have had an overabundance in agricultural products. And if we have a very attractive floor price for agriculture, we are going to stimulate an excessive production and put us into the cheap food situation that concerns him so.

So, there is a fundamental difference between a floor price for petroleum and a floor price for agricultural products.

Representative BROWN of Michigan. I am not sure that he was speaking of a cheap food policy as far as the Government was concerned, maybe he was. I have interpreted it that for too long we have, as a Nation, has a cheap food policy.

Mr. PAARLBERG. That we have had, sir.

Representative BROWN of Michigan. But that is not really a policy. In other words, it just seems to me that you can't have the kind of incongruity that existed in fuel and food; that is the same situation I was talking about, when you look at the figures in the average family budget; they were paying 65 cents a gallon for gasoline in Europe while we were paying 29 cents. And I don't see how, with a free-trading world today, how you can continue to have these abnormalities. It seems to me sooner or later you have to impose artificial restraints to that trade, or you have to balance it out and equalize it.

Mr. WEFALD. Well, Congressman, it is not so much a cheap food policy; it is just a cheap raw materials policy. And I think one of the reasons for that is the urban-industrial revolution that overtook America that the economists—and that is Republicans and Democrats—these economists were educated, you know, in urban universities and came to believe that the only thing of importance was to organize business and organize labor. All you have to do is pick up News Week, or Time magazine any week and look in there for meaningful and constructive analyses of rural America, American agriculture. Or look in there and see what kind of a year farmers and ranchers are going to have in 1975. Are they going to have a better year in 1975 than they had in 1974? No, you never find that.

But you always do see articles about General Motors wanting a better rate of return; the organized Women Workers of America have got to have a better year in 1975 than they had in 1974.

The whole point is that we have had a policy in America now for too long where the key economists—and you know, they are the ones we pay attention to, the Commander in Chief pays attention, Republican and Democrat alike; they have educated our President to believe that the only important things in America are organized business and organized labor, and yet agriculture is the largest industry in America. it has been neglected; it has been overlooked and misused, and somehow we continue to produce more and more for less and less.

So, in the whole cheap raw material era, what they have missed is what raw material production can do for this country. They have forgotten where it all began; it began in the land and raw materials; everything else is secondary. And yet, they have taken the one leg of the three-legged stool, raw material production, and they have ignored it and overlooked it. They have forgotten what effect on the income this raw material production can have.

We have a very recent example what raw material can do for a country: the Middle East. Until about 3 years ago the average person thought about the Middle East in terms of a lot of sand, a few camels, and sheiks. Now we know that it is the oil-producing area of the world. What happened in these countries? They got together, and they started to set a price on oil. What did it do for the Middle Eastern countries? They got together, and they started to set a price on oil. What did it do for the Middle Eastern countries? Well, they can buy out the Rockefeller family right now within 6 days; they can buy out IBM within 243 days; they can virtually pay cash for General Motors right now. And in just about 3 years these Middle Eastern countries—they have just one raw material; it is depletable; once it is taken out it is gone for all times.

And here we have this raw material, 400 million acres of the richest, most productive land in the world, and it's renewable; it renews itself every year for more efficiency and more production. And here these economists, Republican and Democrat, want to give it away; they want us to give that raw material production away. That is my point.

Representative BROWN of Michigan. My time has expired, thank you.

Senator PROXMIRE. Congressman Rousselot.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Mr. Welfald, I have been listening and put together the best I can your specifics on how you think we, the Federal Government, can act on the basis of your recommendation. I hear your rhetoric, and I am sure I understand how we can set up a mechanism to do what you say needs to be done by the Federal Government to achieve this.

I certainly hear you when you say that if we had allowed agriculture, especially the Minnesota dairy farmers to produce the way they should have, we would have a balanced budget; the Federal Government had really disturbed it. We struggled with that for a long time here. I would like you to be more specific on how you believe that would have been achieved at the theoretical levels. Can you give me more specifics on how you would establish this fair market, fair share of the market, or fair rate of return concept? I agree with Senator Proxmire; we don't guarantee the automobile industry that they will get a fair rate of return, and I am not sure I understand how we are going to do that for the farmer. And you said he should make a profit. Sure, I think he should make a profit, and I am as disturbed as Senator Humphrey that there has been this exodus from the dairy farm industry; individuals who work very hard, work 7 days a week. I think they are crazy to work for those kind of wages. I don't understand it either, except for love of the job.

But how can you do that? And if you have this distrust of what the Department of Agriculture has done to disrupt the marketplace, ruin it, make it bad, how is giving more power to the Federal Government going to make things better?

Mr. WEFALD. Well, Congressman, by definition, the Federal Government does have power and used it over a period of the last 25 years.

Representative ROUSSELOT. Now, do you believe in that Government intervention, or not?

Mr. WEFALD. Well, it has to be consistent; either we have it, or we don't.

Representative ROUSSELOT. Do we need more intervention, or less intervention?

Mr. WEFALD. If we keep the intervention and the tools that are now there, we need more. If there is going to be Government intervention on the negative side——

Representative ROUSSELOT. Your specific recommendation is more Federal Government intervention in the field of agriculture.

Mr. WEFALD. Given the continuation of the Government intervention policy that we have now, right. Something has got to counter the embargo and unlimited dairy imports; I mean, the price in Minnesota and Wisconsin was going up very nicely in 1973 and 1974; and then very suddenly we have unlimited dairy import, 85 million pounds of butter in December of 1973; 180 million pounds of cheddar cheese in January of 1974; 150 million pounds in March of 1974—the dairy price went down by 25 percent.

Why did they do that? Because we have been educated for so long that what I call a fair price in agriculture is not in our best interest; the best interest is to get cheap food.

Representative ROUSSELOT. Senator Humphrey suggested we make this a free discussion. People argue with you that the reason that was done was to allow the consumer the benefit of a foreign product. I mean, I am sure that the dairy industry in Wisconsin doesn't like it, or in Minnesota. But our consumer advocates would say to you, "But you are allowing the free marketplace to work by interjection of products and services that can be provided at a lower price;" now, what's wrong with that?

Mr. WEFALD. I recognize what the consumer advocates are saying, and I recognize the pressure on the Congress and the administration to get the dairy prices down. In the short run that might be a victory for the consumer; in the longrun it is not because the low rate of return is forcing dairy farmers out of business, and we are going to be depending on dairy imports just as we do on oil today. In other words, my point to the consumer advocates is that it is in our best interest to make sure that dairy farmer stays in business.

Representative ROUSSELOT. I'm not a spokesman for Ralph Nader.

Mr. WEFALD. I appreciate that, but you see, with the cheap raw material framework we are operating in, every time the price of raw materials starts going up, the Government gets it down; and if that is the key, the Federal Government also has to have a tool at its disposal, if there is a ceiling, there is also going to have to be a floor.

Representative ROUSSELOT. OK. One of the things you advocate immediately is to set target prices, or floor prices, in all agricultural products?

Mr. WEFALD. What I would say, as openers, is that the President should sign the target bill.

Representative ROUSSELOT. We've got that. We are talking about your long-range suggestions and recommendations. You want floor prices on all agricultural products?

Mr. WEFALD. Not necessarily.

Representative ROUSSELOT. You see, that gets to be the problem: Who makes the decision where you have floor prices, and where you don't.

Representative BROWN of Michigan. If the gentleman would yield?

Representative ROUSSELOT. Yes.

Representative BROWN of Michigan. I just wanted to ask him what he thinks the farm bill is going to do for the dairy farmer.

Mr. WEFALD. Not very much.

Senator PROXMIRE. We have two other people here.

Representative ROUSSELOT. What I would like is a letter from you, in some paper form, of your specific recommendations of what we do, as a Government, to provide that kind of fair rate of return. That is a problem for me and Senator Proxmire because we have all these contractors that are coming in, saying, "We want a fair rate of return," and who pays for this? The poor working guy, the 85 million working people in this country, and it takes up an awful lot of dough to do that. So, how do we do that?

Senator PROXMIRE. Thank you so much, Mr. Wefald, you have done a fine job. All right, the last two witnesses, if you would come up together: Mr. James McHale, Pennsylvania secretary of agriculture, and Mr. Robert Duxbury, the South Dakota secretary of agriculture.

Gentlemen, we are very happy to have you here.

If you would like to abbreviate your prepared statements we would appreciate it; both prepared statements will appear in full in the record. Mr. McHale, go ahead.

STATEMENT OF HON. JAMES A. McHALE, SECRETARY OF AGRICULTURE, COMMONWEALTH OF PENNSYLVANIA

Mr. McHALE. Thank you, Senator Proxmire, Congressmen. As the chairman knows, I have been trying to get the Congress of the United States to do a full investigation on the functions of our economy. We've got our priorities all mixed up; we have no long-range plans; we operate from crisis to crisis; we have spent $150 billion in Vietnam; we have spent billions of dollars in Korea; we have spent billions of dollars in World Wars I and II; we have spent $75 to $100 million on the cold war; we have put man on the Moon; we have split the atom—we have power to overkill to destroy the world 30 times over, yet we can't assure ourselves of equity and full employment—there has been a loss of opportunity and private investment opportunity; 30 percent of our plant capacity lies idle; there are millions of workers who are not working; farm prices and income are 68 percent of parity, at the same time our consumer prices are rising; the spread between farm and retail food prices rose by 20 percent in 1974. The 12.4-percent rise in retail prices is entirely due to price increase at the processor and retail level. We no longer have a capitalistic economy. Multinational corporations and huge conglomerates are much a part of the Government today and are subsidized in all kinds of manners; what I am calling for is to put a little bit of competition back in the system. I think we have to build our economy on a peacetime farm concept.

We have to talk about rebuilding America. We need housing, and in view of the energy crisis it doesn't make sense for the Federal Government to propose tearing up the railroads: they ought to rebuild them. It takes one-sixth as much energy to move a ton-mile by railroad as it does by truck.

I think we ought to turn all these things around toward a peacetime economy.

I don't believe in all this talk we have had about free enterprise. I think it's a fantasy for the dairy farmer in western Pennsylvania, when he buys a truck or fertilizer. It is all controlled by a few multinational corporations. And when I get ready to sell my grain, find out that six multinational corporations control 95 percent of the grain movement in the whole world. I don't think this is fair play; I don't believe in it. I think we need to investigate the whole processing system from top to bottom, especially the food industry. And I might say that bargaining power really is determined by shelf space.

Vertical integration has taken place in our country, and it is absolutely appalling, and it is scaring to me. I just want to cite a few samples here on a few products, where a large percentage is controlled by vertically integrated firms and also through corporate integration in a given commodity. If you talk about vegetables, 51 percent are controlled by a monopoly. We have Del Monte, and 95 percent of that is controlled through integration; cereal preparations, 87 percent; 85 percent where Coca-Cola is involved; we have Purex involved, 80 percent is controlled by a few corporations; Pillsbury is one of the top ones there. We talk about all the competition in the food industry, but in 1962 we had four big companies: Campbell, Heinz, Del Monte, and Libby who earned 80 percent of the industry profits; that doesn't leave much for the other 1,192 corporations. In 1966 we had 32,500 food manufacturers; a hundred of them took 71 percent of the profits. And four firms control 55 percent of the market in the average food lines. A few examples: Prepared cereals: we have four corporations that control 87 percent of the market; chocolate and cocoa products: they control 85 percent; bread and prepared flour: 75 percent of the market is controlled by four firms.

This monopoly power directly affects consumers. In 1972 a confidential study by the FTC staff found that 13 food lines were overpriced by $2.1 billion because of monopoly power. I testified before the Nelson Subcommittee on Monopolies. I asked this committee to move on a full investigation of food processors and distribution systems. I don't want to see the day when we have the food chain totally integrated because the consumer is really going to pay the price.

A few present examples are: An appetizer, sautéed mushrooms, by Clorox and wrapped in bacon by ITT. We have a tossed salad by Dow Chemical; we have tomatoes and lettuce by Gulf & Western; turkey by Greyhound; ham by Ling-Temco-Vought. Vegetables, we have carrots by Tenneco; artichokes by Purex; applesauce by American Brands. We have wine by Heublein; beer by Phillip Morris.

This is not the direction I think, Senator, that we ought to be going in. I have a few specific suggestions, but I don't think we are ever going to bust up the monopoly powers we are talking about with past methods. I think we need a real commitment out of the Congress, and therefore I suggest that the Joint Economic Committee recommend that the Government make $2 billion on long-term loans available to producers at 2-percent interest, and also available to small cooperatives and businesses, and get a little bit of competition back in the industry because the bargaining power is on the shelf. We should also extend this so that the small cooperatives control 25 percent of the total market. This has been done by our Government in the past with the Tennessee Valley Power Authority, the Bonneville Power District, and other local public power developments. That would bring a little competition back into the system.

We are the only country in the world now where the Government is not involved in foreign trade. If we get ready to sell wheat to Russia, we deal with the Russian Government. The multinational corporations set the price, and our Government really isn't playing any part.

I think you should also set up $1 billion to follow through on cooperatives at the level to control sales at home and abroad. Far-Mar-Co moved only 7 percent of the export volume last year, while it supplied 67 percent of the wheat sold overseas, and the year before it supplied 77 percent.

So, I think this is the direction we should be going to inject more competition back into the system. I think we ought to change our priorities around and talk about the quality of life. I think we put too much emphasis on the military; we ought to put it back on the people, rebuild this country, and get the farm income up.

It has been stated what the Government programs have done for the farm income. I for one am not afraid of the U.S. Government; I'm more afraid of multinational corporations controlling everything by themselves; they are a government within a government. I think we ought to find out who the Government is. I have read the Constitution and I thought the people had a part in it. But here they are always trying to make the Government big and bad and foreign, and I don't see it that way. Thank you.

Senator PROXMIRE. Thank you, Mr. McHale.

[The prepared statement of Mr. McHale and an article from Farmland News follow:]

PREPARED STATEMENT OF HON. JAMES A. MCHALE

Mr. Chairman, Members of the Committee, my name is James A. McHale. I am Secretary of Agriculture for the Commonwealth of Pennsylvania.

I appreciate the opportunity to appear before this very important Joint Economic Committee of the Congress to present my views on the overall economic situation in America, particularly as it relates to farming and rural America.

I will deal primarily with three matters in this statement. First, the matter of the wide spread between the prices farmers receive and consumers pay. I offer suggestions as to what I think can be done to improve the competitive situation in the food system.

Second, I will discuss aspects of U.S. multi-national commodity trading corporations operations in relation to food.

Third, I will make specific suggestions as to what I think can be done to increase the competitive aspects of our multi-national food economy. I will offer suggestions for establishing competitive yardsticks to create strong domestic and international competition to our vertically integrated oligopolies.

Before going into these specific matters, I wish to congratulate the committee for the excellent Report of the Majority issued by your committee in March 1975.

You are to be congratulated in taking a very hard look at the nature of our economy and what some of the shortrun and longrun needs are for improving its functions in behalf of our citizens and the improvement of foreign economic policy.

It is my conviction that more than 50% of our economic system is operated through private central planning, administered prices, planned controlled production and profits assisted and encouraged by tax shelters and other federal subsidy devices to large corporations.

I sincerely believe that it is necessary for the American people, acting through their government, to take some very strong steps to revitalize competition in our economy before we go over the brink and find ourselves subjects of a corporate socialist state. Farmers and small businessmen operate to a very large degree in a competitive market economy. If it were not for the very limited inadequate protection of the farm income and credit programs, there would be even fewer farmers today. Some 25 million people left agriculture over the past 25 years, because of the lack of opportunity to earn a decent income, enjoy farm ownership and the necessities for a good quality of living such as health, housing, transportation, clean water, adequate plumbing and recreation.

If our federal government is to operate in behalf of all people, it is necessary for the Federal Government to do central planning and establish policy guidelines for all of our people. We as a people cannot compete in a world where practically all governments have national central planning and establish national goals and purposes which in turn determine domestic and foreign economic policy while in the U.S. more than half of our economic functions are controlled, planned and administered by multi-national and national corporate conglomerates while the Federal government has very little central planning of our economic functions.

These huge aggregations of economic power constitute a powerful private economic government which operates as a powerful force upon the decisions of the Constitutional federal government. In cases such as the Russian grain deal and the multi-national oil and energy companies, we have witnessed private "governments" making or substantially directing our foreign policy rather than complying with foreign policies established by our Executive and Legislative branches.

At the present time, the most important task before the nation is to reverse the present downward cataclysmic course of our economy. This, as your committee has properly stated, will require very forceful government action.

Although the private economy is very powerful, the wrong policy decisions which have engulfed us may very well weaken our economy to the extent that we will not be able to withstand the erosion brought on by unemployment, joblessness and a low tax income.

The most pressing concern which the nation has is to halt the decline in our production and employment so that a healthy growth in gross national production can be established. Unemployment must quickly be reduced to 3% or a fractional rate. Four, five or six per cent unemployment is a totally unsatisfactory level of unemployment, particularly if one takes into the unemployment count people who are not counted in the unemployment figures because they have given up and are not seeking jobs any longer, those who are partially employed and those who for other reasons are not counted.

THE TRUE MEANING OF UNEMPLOYMENT

In his excellent study entitled, "Full Employment Without Inflation", Dr. Leon Keyserling states the following, "The true scope of the full employment concept was excellently stated i nthe last Economic Report of President Truman issued in January 1953."

Dr. Keyserling quotes: "Under the Employment Act, full employment means more than jobs. It means full utilization of our natural resources, our technology and science, our farms and factories, our business brains, and our labor skills. The concept of full employment values ends as well as means; it values leisure as well as work; it values self-development as well as dedication to a common purpose; it values individual initiative as well as group cooperation. Full employment means maximum opportunity under the American system of responsible freedom.

"And it is a concept which must grow as our capabilities grow. Full employment tomorrow is something different from full employment today. The growth of opportunity, with a growing population and expanding technology, requires a constantly expanding economy. This is needed to abolish poverty and to remove insecurity from substantial portions of our population. It offers the prospects of transforming class or group conflict into cooperation and mutual trust, because the achievement of more for all reduces the struggle of some to get more at the expense of others.

"Although our dedication to full employment has made great strides within recent memory, we cannot afford to be complacent. We cannot assume that henceforth what needs to be done to promote the maintenance of full employment will be done. None of us—regardless of party—should let the idea of full employment degenerate into a slogan bandied for narrow political advantage. Like freedom, it needs to be guarded zealously and translated into action on a continuing basis. Moreover, if we fail in this, our very freedom may be placed in jeopardy."

Dr. Keyserling, in this excellent study says, "We have never had anything approximating full employment in full economy since early 1953, and even conditions at that time did not fully meet the appropriate criteria. Since early 1953 to date we have had four recessions are now undergoing a fifth. Moreover, at no time during these two decades, have we returned anywhere near the optimum economic growth line projected from 1953. Thus, for more than two decades, we have been in a long term retreat from full employment in the full economy.

"The cost of this long term retreat from full employment in the full economy have been immense. During 1953–1974 inclusive, actual total national production measured in 1970 was more than 2.1 trillion dollars below what it would have been at sustained full employment in a full economy during these 22 years.

"During this 1953–1974 period the actual annual rate of real growth was only 3.3%. The man-years of employment opportunity which were lost, based upon the true level of unemployment concept was 51.2 million. The forfeitures in average family income are estimated at $18,750 and in wages and salaries, almost 1.2 trillion dollars. Private business investment opportunity was deficient by 578.4 million.

"These giant deficiencies in our economy's performance have not affected all people to the same degree. The deficient performance of the economy at large has generated and has been substantially called by a distribution of income much less equitable and would have been generated automatically by a full economy and by the policy programs essential to full economy."

I congratulate the Joint Economic Committee on the recommendations you have made in your Majority Report. I am especially pleased to see that you are recommending daring actions in a number of fields which should substantially increase employment, increase taxable income and reduce inflation.

It is particularly reassuring to know that the Joint Economic Committee is investigating and making specific proposals regarding farm income, the spread between farmers and consumer, the food aspects of foreign policy and the high degree of inter-relationship between food, agriculture, raw materials and other segments of our society.

We are in a very critical and dangerous situation. We must move very rapidly and with daring.

One of the most important things which the Congress can do at this time is to enact the Humphrey/Hawkins Bill, "The Equal Opportunity and Full Employment Act."

Only under conditions of genuine full employment and confidence in continuation of full employment will it be possible to eliminate a bias, prejudice, discrimination and fear that has resulted in unequal employment.

Furthermore, it is absolutely necessary for this nation to determine what its goals and priorities are before it makes up its federal money budget. I am very pleased to note that a very important section of the Equal Opportunity and Full Employment Act is provision for a national purposes budget. This national purposes budget sets forth several basic principles. The budget of national purposes required that the Congress set forth for one year, and such longer periods as may be feasible, the following goals for full employment, production and purchasing power in quantitative and descriptive terms which take into account the composition of the structure of each needed in order to maintain economic balance and meet national needs:

1. Full employment goals as defined as the number of full-time and part-time jobs to be provided for all adult Americans able and willing to work (including those not in the labor force as customarily measured). Such goals shall be consistent with not more than a 3% full-time unemployment rate as customarily defined. This goal is to be obtained at not more than 18 months after the first Economic Report transfers under the Act.
2. Full production goals set at the levels of output estimated to be yielded by achievement of the full employment goals as defined above, will improve productivity.
3. Full purchasing power goals set at levels estimated to be necessary for obtaining and maintaining full employment.

PRIORITY PURPOSES AND PROGRAMS

As a framework for the President's legislative and budgetary proposals to the Congress and to integrate and reconcile the programs and operations of federal agencies, the Purposes Budget should project in broad quantitative and qualitative terms the goals, policies, and programs to meet the priorities of our national needs and purposes, consistent with and conducive to full employment, production and purchasing power. The goals, policies and programs should include:

1. Conservation and development of national resources and raw materials, and energy supply, in accordance with full employment needs.
2. Housing construction, maintenance, rehabilitation and urban renewal, needed to achieve fōr every American family, a decent home in greatly improved living environment within a decade or less.
3. Improvement of a natural environment by a reduction of air, water, soil, and noise pollution and by the more efficient control of recycling the waste production.
4. Adequate health care for all at costs within their means within a decade or less.
5. Educational opportunity for all in line with their abilities, interests, and ambitions at costs within their means within a decade or less.
6. Adequate day care, nursery, and kindergarten personnel and facilities within reach of families in the nation who desire these, within five years or less.
7. Improvement, expansion, or new development of railroads, subways, bus lines and other modes of mass tranportation required to underpin full employment and production.
8. Such increased production of food and fibers that will meet the needs of the domestic economy operating at full employment and production levels, provide agricultural products to other countries through normal channels of trade and through bilateral and international programs of aid or emergenry relief and build substantial reserves of protection against unavoidable shortages of production.
9. Nationwide equalization efforts designed to move gradually toward parity income and public service and facilities among rural, central city and suburban areas.
10. The development of basic sciences both theoretical and experimental and the expansion of applied science directed toward meeting economic and human needs.
11. The development of artistic, aesthetic, cultural and recreational activities in all areas of the country.
12. Federal aid to state and local governments for the acceleration or development of needed public service and public works.
13. The virtual liquidation of poverty, substandard wages and substandard conditions of employment in the United States within a decade, and substantial

income progress for those who live above poverty but in deprivation with incomes insufficient to allow a minimum adequacy standard of living. Consideration will be given to the feasibility of appropriate universal income supports for those unable to work.

14. Needed increases in expenditure for income transfers, for those unable to work, and their dependents.

15. The promotion of small business and the competitive private enterprise and the control or elimination of practices of businesses of any size which are inimical to the public interest.

16. The efficient development of such military capabilities and international policies and programs as are necessary to the defense and security of the country, and for related activities such as space exploration.

17. Whatever shifts in output, employment, and expenditure patterns or appropriate expansions in desirable alternate activities or facilities may be required to facilitate, or adjust to necessary reduction and conversions in military and other industrial activities and facilities.

18. Such transitional and supplementary employment pursuant to (A) sections 5, 6 and 7 of this act and (B) the Comprehensive Employment and Training Act of 1974 and other laws as may be needed from time to time to help obtain full employment and as will contribute to the long range and high priority programs referred to in this subsection C.

19. Such other goals and priorities and programs as may be necessary.

Without going into all other provisions of the Equal Opportunity and Full Employment Act, I do wish to strongly support this legislation. I urge the Joint Economic Committee to endorse the principles embodied in the act.

Now I wish to make some comments on the specific topics about which I have been asked to comment.

Retail Food and Market Spreads.—The wide spread between farm and retail food prices is something which has been a concern to farmers ever since corporations and especially conglomerates entered the field of gathering, processing, packaging and retailing raw farm products.

The speculative influence in international markets coupled with the conglomerate vertically-integrated raw food gathering, processing, canning, pre-cooked and retail chain store distribution brought inflated prices for dairy and meat producers for feedstuffs and much more inflation of practically all foods for consumers. In 1974 the spread between farm and retail food prices rose 20%. The 12.2% hike in retail food prices in 1974 was entirely due to price increases at the processing and retail levels.

I am glad to note that the Joint Economic Committee is investigating the widening retail price margins. Your committee has indicated that the 1974 rise in food prices was partially a result of excessive food chain profits. The marginal spread was not entirely cost justified. The return on equity in the top 14 U.S. food chains rose 115% in the third quarter of 1973 to the third quarter of 1974.

I urge your committee to continue your investigations of the vertically-integrated aspect of the food industry, particularly retail food and grocery subsidiaries.

The Federal Trade Commission should continue with all deliberate speed to investigate markets concentrations, profits and price activities in the retail food industry.

I have done a considerable amount of work through the Agri-business Accountability Program and we have found the following facts which indicate that there is great need to break up the food monopoly.

VERTICAL INTEGRATION

Vertical integration is overwhelming family farmers in important sectors of production. The following facts are indicative of where we are headed:

Crop and leading corporate integrator:	*Percent integrated*
Fresh vegetables—Tenneco	51
Processing vegetables—Del Monte	95
Potatoes—French's	70
Citrus fruits—Coca-Cola	85
Seed crops—Purex	80
Broilers—Pillsbury	97
Turkeys—Ling-Temco-Vought	54

Through vertical integration, corporation middlemen take over the production sector of agriculture. The raw food production sector—family farmers—is the last truly competitive sector in the food economy.

COMPETITION MAKE BELIEVE

One thousand, two hundred canners in the country—make it look competitive. As far back as 1962, four big companies—Campbell, Heinz, Del Monte and Libby earned 80% of the industry profits. That doesn't leave much for the other 1,196 competitors.

1966—32,500 Food Manufacturers—100 of these took 71 percent of profits.

Four firms control 55% of the relevant market in the average food lines.

Food line and market share of four largest firms (1966)

	Percent
Cereal preparations	87
Chocolate cocoa products	85
Bread and prepared flour	75
Biscuits, crackers, and cookies	70
Wet corn milling	67
Fluid milk	60

This monopoly power directly affects consumers. In 1972, a confidential study by the FTC staff found that 13 food lines were overpriced by $2.1 billion because of monopoly power.

Here is a 1972 American meal made up of products produced by American Conglomerate Monopolies.

Appetizer.—Sauteed mushrooms by *Clorox* wrapped in bacon by *ITT.*

Salad.—Tossed salad of *Dow Chemical* lettuce and *Gulf & Western* Tomatoes.

Entres.—Turkey by *Greyhound* and ham by *Ling-Temco-Vought.*

Vegetables.—Carrots by *Tenneco;* artichokes by *Purex*; and apple sauce by *American Brands.*

Beverages.—Wine by *Heublein*; beer by *Phillip Morris;* tea by *Unilever;* and orange juice by *Coca Cola.*

Desserts.—Chocolate cream pie by ITT; pudding by *R. J. Reynolds;* ice cream by *Unilever;* and almonds by *Tenneco.*

I do not have a great deal of faith that the Federal Trade Commission and the Anti-Trust Division of the Justice Department can or will act to break up the oligopolies and monopolies. They are restrained by powerful political forces from taking the actions necessary to break up the oligopolies and the conglomerates so that we can have a free, competitive situation in the food industry from the farmer to the consumer.

Therefore, I suggest that Joint Economic Committee recommend that the Federal government make available $2 billion in long-term 30 year loans at a 2% interest rate to establish yardsticks in the food industry so that cooperatives and small non-integrated profit firms can participate in the food industry to provide adequate competition for the food giants of America.

If we are to avoid a corporate state in America, it is absolutely necessary to take steps to return competition to the marketplace.

The provision of $2 billion to establish an integrated food system for 25% of our food industry is not something pulled out of the blue nor is it something that has not been in other fields. The federal financing of the original Tennessee Valley Authority, the original federal funding of the Bonneville Power District and many other public power developments, such as the local power developments in the State of Washington and the State of Nebraska, have provided tough competition for the investor-owned private utilities. Many of the investor-owned utilities are now served by TVA and Bonneville.

In quite another field, the government of the United States furnished the original capital for the establishment of Federal Land Banks, Production Credit Associations, Intermediate Credit Banks and Banks for Cooperatives .All of these institutions now are owned by their customers. The capital advanced by the government has been long since repaid. This federal funding of original capital is a key factor in establishing competitive yardsticks in the food industry.

Cooperatives now operating at multi-billion dollar levels can be encouraged to enter the food processing, marketing, packaging and retailing for 25% of the food industry if equity capital at low cost can encourage the beginning efforts of a very tough competitive yardstick which would measure the efficiency of the 75% of the vertically-integrated food industry.

Such strong support will be opposed by the present food industry. There is little doubt there are very substantial profits in the food industry or else there would be no reason for the conglomerate giants and the huge international banks going into the food industry, particularly the integrated steps between farmer produced raw materials and the ultimate consumer.

MULTINATIONALIZATION OF FOOD

Another very important aspect of the food industry is the operation of the multi-national commodity trading corporations. A recent example is the operation of a small group of U.S. multinational trading corporations that negotiated huge private deals with Russia and other foreign countries without the official knowledge of the United States government.

Therefore, I recommend that the Congress encourage Farmers Marketing Cooperatives to substantially increase their operations in the international commodity trading field.

At the recent annual meeting of the members of the FAR MAR CO cooperative in Denver, Colorado, it was reported *that farm marketing cooperatives directly moved only 7% of the export volume last year while supplying 67% of the wheat sold overseas and 77% the year before.*

This indicates that for too long, cooperatives have merely collected grain for "the big boys", such as Cargil, Continental, Cook and Bunge to move into export channels.

Although FAR MAR CO reported an outstanding year for 1974 in handling 335.6 million bushels with sales of $1.2 billion in a record saving of $17 million, the farmers' cooperatives and their cooperative export company barely scratched the surface of exporting and international trading.

I recommend that the federal government make available $1 billion of 30 year term loans at 2% interest to farmers marketing cooperatives to establish themselves to handle not less than 25% of the export-import markets all over the world. Cooperatives can be very effective in doing this particularly in the non-Communist countries of the world where farmers' cooperatives are already established. Such countries as Japan, the European countries, India, Australia, New Zealand, Canada and other non-Communist countries have large, well-managed cooperatives of the world. Farmers' cooperatives of the U.S. can extend international exporting and importing of grains, soybeans, dairy and other foods and fibers to a worldwide system of cooperatives by establishing international cooperative institutions jointly owned by U. S. cooperatives and cooperatives in other countries.

If at least 25% of all grains and soybeans, meat and cotton shipped from this country could be handled by international cooperative businesses owned by U.S. cooperatives and their counterparts in Japan, Europe and other non-communist countries of the world, tough substantial competition would be given to the huge multi-national trading corporations of the U.S., Japan and European countries.

A U.S. COMMODITY IMPORT/EXPORT BOARD

In addition to the proposal for extending large credits for the establishment of the international cooperatives exporting and importing systems, I urge that the Congress establish a Commodity Import/Export Board to regulate and direct United States imports and exports of food and raw materials. We should not be exporting large quantities of foodstuffs to Russia, while at the same time and because of such secretive non-government actions, be forced to reduce the amount of soybeans we sell to a favorite trading partner such as Japan. The Commodity Import/Export Board should be established by Congress. Appointments to the Board should be made by the President with an equal number to be named by the House and Senate.

The United States is the only major country in the world where the government does not have control of the importing and exporting of commodities.

The classic example of lack of control was the Russian wheat and feed-grain sales where a few United States multi-national commodity trading corporations made a private deal with the Russian government to sell grains and soybeans without the official knowledge or consent of the Secretary of Agriculture of the

United States. This should never be allowed to happen again as it disturbed the whole world market. It caused much fear and speculative buying, which in turn caused substantial food inflation all over the world.

I congratulate the Joint Economic Committee for its recommendations for dealing with the immediate economic and social problems facing our country. However, I wish to emphasize that, as very necessary as short-range remedies are, we must adopt a new concept as to how our economic institutions are to serve our people. Government cannot be directed by powerful coalitions that use government for their own self-centered interests and to wield power over government to determine economic policy.

My view of our government is that it should do for ALL of the people those things they cannot do for themselves. The most important role our federal government can do is for the Executive and Legislative branches of government, in consultation with citizens and their private organizations, to plan and carry out a program of development and growth such as envisioned in the Equal Opportunity and Full Employment Act of 1975.

The most important need is to carefully determine what national purposes and goals are to have primary priority. After deciding what national purposes and goals are most important, the U.S., which is a very great country with great opportunities can be revitalized. It can eliminate poverty. It can employ all who are able to work at good incomes. It can pay its farmers very well.

We are going to lose some of these opportunities if we engage in another Joe McCarthy cold war recrimination and counter-recrimination over what has happened in Vietnam.

Four wars in one generation has done more to destroy the economic base of America than all other negative forces. We have pumped hundreds of billions of dollars into our non-reproductive war machine. We have given the lives of hundreds of thousands of our choice men to fight these wars. Now we are suffering from the negative economic results of the economic waste of trillions of dollars. We end up with a very high unemployment rate with five recessions in the period from 1953 to 1974 and two-digit inflation.

It is high time to get a new concept of government and its role in our economic and social order. Our citizens must accept full responsibility for making government function in behalf of ALL of our citizens with "Equal Opportunity and Full Employment".

[From Farmland News, Mar. 15, 1975]

Grain Co-Ops Eyeing Bigger Export Slice

(By Frank Whitsitt, Editor)

As the Nation's largest grain marketing cooperative, Far-Mar-Co is determined to make it to the big league in the export business.

For too long co-ops have merely collected grain for the "big boys"—such as Cargill, Continental, Cook and Bunge—to move into export channels, officials told more than 2,000 representatives of member co-ops at Far-Mar-Co's annual meeting in Denver. Headquartered in Hutchinson, Kan., Far-Mar-Co serves members in eight states.

Co-ops directly moved only 7% of the export volume last year while supplying 67% of the wheat sold overseas and 77% the year before.

Despite this, Far-Mar-Co reported an "outstanding year" for 1974. It handled 335.6 million bushels with sales of $1.2 billion and record savings of $17 million.

"In view of the rapid progress in volume and savings," said Walter Peterson of Chappell, Neb., board chairman, "one might ask why the snail's pace in direct exports. Well, we've all been disappointed in this area."

Peterson and George Voth, general manager, said long-range plans call for building an export organization to maximize returns to its 250,000 members.

"The key to the future," Peterson said, "is an export marketing system with the necessary capital, facilities and know-how that make our grain more valuable whether we're selling to domestic mills or Japan and Europe."

Far-Mar-Co is one of several grain marketing co-ops that own the Farmers Export Elevator a few miles north of New Orleans on the Mississippi River. Far-Mar-Co's benefit from this facility is limited, it was said, because so much of the grain grown in its territory is "out of position" for movement to the Louisiana facility.

However, Farmers Export Co. is considering sites for other export elevators on the West Coast, on the Great Lakes and on the Texas Gulf.

Sy Bichler, executive vice-president and general manager of Farmers Export, conceded that the cooperatives' export arm had "only scratched the surface." An important part of growth depends on gaining the confidence of the foreign buyer, he added. "You can't be a sometime seller," he said. "We must have firm commitments. The farmer's reputation as a supplier is on the line. The private firms can turn to other sources around the world to fill contracts but we can't."

Softening grain prices were of considerable concern at the meeting. Indeed, wheat dropped 27 cents in the two days the sessions were being held.

To be effective in the export field, co-ops must control all phases of the business from time charters on ships to maintaining offices around the world, Bichler added.

Bichler said the co-ops must be able to block off sizable amounts of grain for export at various positions in the United States.

One umbrella organization is needed to avoid duplication in handling exports," Bichler added. "Why build terminal elevators, lease rail cars and run barges and then settle for delivering cargoes to the private exporters."

At a breakfast for co-op managers, Voth and Ronald Knutson, administrator of the Farmer Cooperative Service, discussed how uniform marketing agreements are vital to becoming effective as direct exporters.

While the issue is complex, it boils down to selling farmers on the need to contract their production with their co-op to enable it to market large amounts at the most advantageous time and price. Part of the financing could come from pooling the grain of many farmers under a government loan, with the loan price representing the first payment to farmers.

Another speaker, Duane Acker, vice-chancellor of agriculture at the University of Nebraska, also stressed farm exports as absolutely vital to the nation's trade.

"Agriculture is the savior of the American dollar," Acker added. "Without it, one authority told me recently, there might not even be an American dollar today.

"Anyone who does anything to inhibit farm exports or farm production is no friend of the American dollar."

Acker said U.S. agriculture has enjoyed "fantastic" success in production and now similar results for marketing are being demanded. But in production, he noted, decisions are made by one man; marketing decisions, to be effective, must be based on group action.

E. A. Jaenke, former governor of the Farm Credit Administration and now operating his own consultant firm in Washington, gave an optimistic view of the makeup of the new House agriculture committee, which he described as the "womb" of farm legislation.

He expressed doubt that a "wild-eyed liberal" could have much effect on the committee and suggested that legislation spearheaded by the new chairman, Tom Foley of Washington, would have better chance of passage than under the former chairman, Bob Poage of Texas.

"Agriculture is front and center these days," Jaenke added. "You don't have to worry about your problems being ignored or forgotten. You can look forward to helpful legislation (concerning target prices and reserves) that won't box you in."

Jaenke said the Midwest has never been as well represented on the House ag committee. "Nearly half the members are from your region," he said. "These just aren't high-price vs. low-price legislators. They are pragmatic people who are not stuck to any particular farm philosophy."

As keynoter, Gov. James Exon of Nebraska called for a farm policy that recognizes the need of reserves for stability.

"This nation should maintain a minimum 2-month domestic supply of storable grains and fibers," he said. "One-half should be maintained on our farms and the remaining month's supply in public hands under control of a national food and fiber board."

Farmers would maintain ownership of grains stored on their farms and the balance would be owned by the public.

Exon said the U.S. should insist that foreign buyers "enter into long-term contracts with us and aid in achieving stability by maintaining, at their cost, reserves equal to 10% of expected yearly purchases. With such a program foreign consumers would share with us both the benefits and costs involved in achieving greater stability."

Peterson was re-elected chairman of the board. Newly elected board members are Don Crane of Wright, Kan., Gene Guilford of Jansen, Neb., John Buttrom of Atchison, Kan., and John Martin of Osborne, Kan.

Senator PROXMIRE. Our final witness is Mr. Duxbury; go ahead, sir.

STATEMENT OF HON. ROBERT DUXBURY, SECRETARY OF AGRICULTURE, STATE OF SOUTH DAKOTA

Mr. DUXBURY. Thank you. I appreciate the opportunity to speak before this committee, and I certainly share the thoughts of the other two commissioners of agriculture, and I will summarize as briefly as possible.

In South Dakota, we are basically an agricultural State, one of the few where agriculture regularly contributes more than three times as much to the gross State product as manufacturing. Cattle are our basic industry. We have seen a disruption in our economy in the State this last year, and we cannot expect it to return to normal until we put the cattle industry back on a profitable basis.

I don't think any industry has been affected as severely as the cattle industry in the past 2 years. Starting with the consumer boycott, followed by the Government price freeze which totally disrupted the normal market system, cattle were placed on feed, and everyone lost from the consumer down to the cattle producer. Of course inflation had a big part in the entire production cost.

Livestock value on cattle decreased 50 percent in our State in 1974.

As far as credit is concerned, it is much more difficult than in the past to obtain. You may be interested in one statement from the chairman of the Northwest and South Dakota Credit Association, which has $12 million in outstanding loans to farmers and ranchers in an area that has been hard hit by drought, storms, plus the depressing prices. He states, "I seriously doubt that our association will be able to provide operating funds for a majority of our livestock operators. Most of those are in the range of 25- to 40-year-old borrowers who do not have substantial equity." The analysis of the net worth of 130 member borrowers shows a combined net loss of $8.4 million. The net loss was almost 25 percent during 1974.

There has been an increased importation of beef during the early part of 1975. We have been asked to sell more cows, reduce our numbers, in direct competition with the foreign beef.

In addition, we have had increased marketing costs. According to the latest figure that I have seen, the price between the farm and retail red meat was 56 cents a pound in January and February of 1975. We have heard this morning that in 2 years we have seen food prices go up 28 percent, but 80 percent of this was after it left the farm.

Of major concern in our State has been some meatpacker bankruptcies. One meatpacker passed South Dakota feeders almost three-quarters of a million in bad checks, out of a national loss of about $25 million. The Packers and Stockyard Act has never been amended to required bonding of meatpackers. There is nothing more disturbing to some of these producers, who are losing $100 to $200 a head, then to sell their cattle to a meatpacking plant that they had done business with for several years to find out that the check is no good. The same as having given their product away.

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Then, of course, we had a big drought last year; we had blizzards in January, another in March; and the increased shortage of feed has been a big problem in our industry.

I might point out one thing as far as the cutback. We have a cutback in feed grain in South Dakota. Many farmers will be putting on less fertilizer. This morning my wife and my son will be spreading fertilizer on ground going into feedgrain production. There will be 25 to 30 percent less fertilizer than we put on last year, the cost of which is over $200 a ton, and 3 years ago I think it was $80 per ton.

The reason, I think, is that we are concerned about producing too much wheat and corn—we want to produce all we can—but if we look back to the years 1970 to 1973, everybody was encouraging us to increase our cattle numbers because we had a great potential for exporting beef in Europe and in Japan, and the people in the United States would eat more beef. Now, since January of 1973 up to about the first of January 1974 that completely turned around and they are saying we have too many cattle, we should liquidate some of our cows; we should bring our numbers in line with supply. It would have made a lot more sense, I think, to most livestock producers to have cut back 2 years ago, rather than today.

Some farmers in Iowa, Minnesota, and Illinois, that had good prices for their grain, also fed cattle. They lost all the value of their crops through the depressed livestock prices. And they can see how we could have a turnaround in grain prices in 1 year, similar to what happened in our cattle industry.

I might say in conclusion thatthe livestock industry has a great efficiency record: they have made great improvements in feed efficiency and quality. The industry has made some rapid and drastic changes in operations to provide the consumer with a quality product. Cattle remain very efficient in converting roughage and other waste materials into food for human consumption. This is especially important since half of the land area in the United States, as well as half of the land area in South Dakota is rangeland.

I believe the industry has done its part in producing food for not only the United States, but for the world. They want to produce at full capacity, but they realize they cannot do it without a profit.

The Nation has a great deal at stake, especially the consumer if he desires to keep a continued availability of a quality product on the grocery shelf.

We want to produce, but we again look to what happened to the cattle industry in such a short time. We are all concerned; we must do what we can to protect this vital industry, and I think that we all agree that it is essential. Thank you.

Senator PROXMIRE. Well, thank you, Mr. Duxbury.

[The prepared statement of Mr. Duxbury follows:]

PREPARED STATEMENT OF HON. ROBERT DUXBURY

I am Robert Duxbury, Secretary of Agriculture for the State of South Dakota.

South Dakota Governor Richard Kneip and I both appreciate the opportunity I have been given to appear before this committee. South Dakotans particularly value your focus on agriculture because ours is basically an agricultural state—one of the few in which agriculture regularly contributes more than three times as much as manufacturing to the gross state product.

My remarks will center on the beef cattle industry because it is the largest segment of the livestock portion of agriculture, and because of the extremely threatened financial condition of most U.S. cattlemen.

First, I will refer to recent, unusual misfortunes suffered by this industry.

Then, I will explain the financial effect they have on our producers and the economy.

Finally, I will suggest some types of congressional action and point out why consumers need to be concerned about the future of agriculture.

The misfortunes to which I refer are:

1. Consumer boycotts.
2. Government price freeze.
3. The sudden loss of export markets for which the U.S. beef industry was expanding.
4. The recession and consequent drop in livestock prices and values.
5. Inflation in the cost of farm inputs which accompanied a drop in product demand.
6. The unusual combination of summer drought and severe winter blizzards combined with an inadequate emergency livestock credit system.
7. The threat of increased beef imports into a flooded domestic market.
8. The huge increase in marketing costs.
9. The meat packer bankruptcies and subsequent failure to pay cattlemen.
10. The present stage of the cattle cycle.

As to the export situation, one need only to compare today's conditions with those of two or three years ago. Then we were told Europe never could get enough American meat. Now, suddenly, Europe has a beef surplus. Then, Japan and some other nations appeared to have just begun to appreciate American beef, and it appeared they had sufficient wealth to indulge their new-found taste. Now, suddenly, Japan has a foreign exchange shortage.

As to livestock prices, one figure can illustrate the severity of the price drop for livestock. In South Dakota, the value of red meat animals on farms dropped 54 percent—about $1 billion—between January 1, 1974 and January 1, 1975, mostly due to changes in market prices for livestock between those two dates. U.S. losses on inventory value were of similar proportions.

As to inflated input costs, higher input costs combined with very low cattle prices have resulted in unprofitable returns to cattle producers over the past two years. Prices for all classes of cattle have been below break-even levels for most beef producers, with financial losses of $100 a head not an uncommon figure in our State and across the Nation. December 1974 data shows that since a year earlier, the prices farmers paid for feed were up 20 percent; motor vehicles went up 24 percent; farm machinery went up 25 percent, and fertilizer went up 81 percent.

As to credit, legislation is before Congress to liberalize the emergency livestock credit act of 1974, but at present many farmers who need emergency loans do not qualify for them.

The chairman of the board of a northwest South Dakota production credit association, which has $12 million in outstanding loans to farmers and ranchers, stated, "If the present relationship continues between cost of production and income from the sale of our products through another marketing season, I seriously doubt that our association will be able to provide operating funds for a majority of our livestock operators". He stated further that, "the 25-to-45-year-old borrowers do not yet have substantial equities. The farmers and ranchers of tomorrow are suffering the brunt of the financial catastrophe and will go under first." An analysis of the net worth of 130 member-borrowers showed a combined net worth of $35.1 million on January 1, 1974, compared to $26.7 million for January 1, 1975— a drop of nearly 25 percent.

As to imports, history shows a steady increase of beef imports into the U.S. with sharp increases during the 1970's. 1974 did show some cutback because of low prices but the first qarter of 1975 once again shows a sharp acceleration. In view of the new world meat supply situation, U.S. producers fear that import increases will continue throughout the year. If meat imports continue at their January rate, cow beef—hamburger grade—will continue to be priced so low that U.S. producers will be discouraged from culling their breeding herds and selling excess cows for slaughter. The U.S. cattle industry obviously needs to get its cattle numbers cycle turned around before it can cope with heavy imports.

As to marketing costs, charges for processing and distributing food products rose an extraordinary amount in 1974 and accounted for most of the rise in retail food prices. Price spreads for beef jumped about 10 cents in late 1973, following the end of the price freeze, to over 50 cents per retail pound, where it more or less remained through 1974. It averaged 56 cents January through February 1975.

As to meat bankruptcies, one meat packer bankrutpcy has cost South Dakota cattle feeders around $¾ million in bad checks, that we know of, out of a national loss of $25 million. The Packers and Stockyards Act, for various reasons, has never been amended to require bonding of meat packers.

As to the cattle cycle, all these catastrophes hit the cattle industry at the worst possible time because beef cattle numbers were then beginning to peak, as they do every twelve years or so. At the peak, cattle numbers are forced, for a few years, to level off from the steady uptrend, or even to decline while demand catches up. The force that accomplishes this adjustment is cyclically low cattle prices. Even in more normal times, the peak of the cattle cycle is an ordeal for producers—with complex forces causing the cycle to amplify and feed upon itself. For example, low cow prices discourage culling out excess breeding cows.

Nationally, the inventory of all cattle and calves on farms and ranches on January 1, 1975, was nearly 132 million head, up 3 percent from the record high of a year earlier, and up more than 50 percent from the 1962 figure.

Despite more cattle being available for feedlot finishing, cattle feeders are cutting back severely. Cattle on feed were off 26 percent on January 1, 1975, from a year earlier nationwide. The April 1 survey, indicated that an even further decline is underway.

FINANCIAL SITUATION OF FARMERS

These misfortunes have combined to leave beef producers on the ropes financially. Farmers have taken on a tremendous amount of debt.

A leading South Dakota commercial banker has said that it will be difficult for those who did not have substantial equities in land and machinery to continue in business. He stated that those who can continue, with the majority of their assets pledged to secure accumulated losses, will be limited in their ability to replace worn equipment and make needed capital improvements and that even when the profit situation improves, they will have substantial debts remaining over a long period of time. Profits that would normally be returned into operations will be needed for debt retirement, for those lucky enough to survive.

EFFECT ON ECONOMY

The nation's economy is based on agriculture, and it suffers when agriculture suffers.

For example, in South Dakota, new passenger car registrations decreased 15 percent in 1974. January 1975 registrations were down 31 percent over a year earlier. February was down 16 percent, and March down 19 percent.

According to the farm and industrial equipment institute, U.S. tractor sales totaled 173,800 units in 1974, off 12 percent from 1973. Most of the decline came in the under 100 horsepower classification. Typically, livestock producers are the most important purchasers of this type of equipment.

NEEDED ACTION

The livestock depression is an important factor which has hurt the economy nationwide. Simultaneously, the national economic recession has amplified the livestock depression. In your committee's responsibility for the overall national economic well being, we appreciate the emphasis placed on meeting the special problems and needs of agriculture.

Persons representing 22 South Dakota livestock organizations at a statewide emergency meeting held in Pierre, South Dakota, unanimously passed a series of resolutions in which they advocate support for a number of remedial programs. Beef producers in other states have indicated support for the same action steps. Endorsed by the South Dakota beef industry were:

Government purchases of beef for foreign and domestic aid to the poor;

A producer-controlled beef bank to store beef in frozen or canned form during periods of excessive surplus;

A national checkoff of funds—authorized by proposed Federal legislation—to be used for education, promotion, research and protection of the industry;

A program of better working relationships with Congress and the consumer;

Provisions for more responsiveness in Federal Emergency Livestock loans;
A more restrictive beef import program;
A thorough investigation of the farm-to-market price spread on meat; and
A compulsory bonding of meat packers to protect the seller.

CONCLUSION

The Livestock Industry has a great record of efficiency. Great improvements have been made in feed efficiency and carcass quality. The industry has made drastic and rapid changes in their operations to provide the consumer with a quality product. Cattle remain very efficient in converting roughage and waste material into food for human consumption and this is significant because approximately one-half of the land area in the United States as well as one-half of the land area in South Dakota is range land.

The industry has done it's part. It wants to continue to do so. But the nation has a great deal at stake and so does the consumer as she desires the continued availability of quality food products.

Dare we not all be concerned and do what we can to protect this vital industry?

Senator PROXMIRE. Mr. McHale, the Joint Economic Committee staff tells me that the retail spread has widened, by their calculation, 18 percent last year. They attribute part of it to rising supermarket chain profits. You mentioned a Federal-State commission study where price overcharges of $2.1 billion were attributed to market concentration of foods.

Mr. MCHALE. That was back in 1966.

Mr. PROXMIRE. Secretary Butz feels that our antitrust laws inhibit cost savings by preventing food firms from joining together. What would happen to the cost if antitrust enforcement were relaxed on the food industry, and they would be allowed a greater market concentration?

Mr. MCHALE. I think concentration is bad, and that's what we have today. I can give you a little example of what we have been doing in Pennsylvania. I was quite concerned— a woman sent me a receipt for a 90-pound calf at $2.80 last October; and also she included a receipt for a calf that weighed 95 pounds and brought $48.50 the year before.

So, I went up to our great land-grant college, Penn State University, and had them butcher a cow. It was a three-year-old, weighing 1,350 pounds. I told them to pull out the choice cuts, the kind they put on in the grocery store, and then grind the rest down to hamburger. The cost of that hamburger was 28.5 cents a pound. So, I then added the USDA markup. 37.5 cents, and that still only brought it to half of the supermarket price of $1.09. That made a lot of news, and the price of hamburger in our State within 2 weeks came down to 80 cents. Now, this is what we can do when we have competition.

I might say that I didn't get much cooperation on the followthrough from the university. The pressure moved in and a note went up to the university saying not give me any more figures. So, when I called up the second time I wasn't able to get any more information. I called the president and advised him that they were supported by tax dollars of the citizens of the Commonwealth of Pennsylvania, and that I am also a trustee of the university and secretary of agriculture and I wanted it. I went up to a meeting with the president, the dean, and others, and proceeded to ask them to follow through on the study, since it was in the consumer interest. And they told me that a land-grant college didn't have the facilities to do that complicated study and it would cost

$250,000. Well, I told them I had the quarter million because there are $400,000 a year at my disposal, and I thought it was most important to find where the ripoff is between the farmer and the consumer. That's what happened, Senator.

Senator PROXMIRE. Well, I think that is one aspect of it, and it is very important to stress that. That is an interesting practical story that you told: What happens when you have concentration, as compared to when you have competition.

But the concentration works two ways. It is obvious to most of us, it can work out to higher prices for the consumer and often does. Yet, the concentration enables the processors to be in a far stronger position to bargain with the farmer, so that he can hammer the farmer into a position of weakness. That may be of benefit to the consumer in the very short run, but in the long run it can be destructive of the ultimate production.

Mr. MCHALE. Senator, we have seen food manufacturing concentration, and we have seen the farm price go down and the consumer price go up, and I don't think there is any connection between the two. I don't think there is a bit of connection between them.

Senator PROXMIRE. Well, there is likely to be some connection. You see a wide spread, but in the last month or so there has been some drop in food prices in retail.

Mr. MCHALE. What do you think about the cereal industry, where they spend a couple billion dollars a year on cereal that's got 3 or 4 cents worth——

Senator PROXMIRE. Well, certainly that is a good example. But overall I don't see any way in which, if you have much higher food prices, that you don't have somewhat higher retail prices, versus lower farm prices, you can get somewhat lower food prices. But the margin is wide, I agree.

Mr. MCHALE. I can give you another example in western Pennsylvania where we had a 300-farmer milk co-op. The consumers were able to get refunds of $1.2 million, and the farmers were paid $1 million more than the competition.

Senator PROXMIRE. Well, let me ask both you and Mr. Duxbury a question; this committee may shortly look at food processing and market concentration; on what specific food lines should this study focus?

Mr. MCHALE. I think meat is certainly one area. And the cereal industry, that is one of the worst ripoffs we have. You spend half a cent on wheat, and when you get "Total" you spend 15 cents a box more.

Senator PROXMIRE. Do you have a comment, Mr. Duxbury?

Mr. DUXBURY. In our State, of course, meat is the most important factor, and we are also concerned about the bonding of meatpackers as well.

Senator PROXMIRE. In your experience, is concentration an important factor, the concentration on the part of meatpacking firms?

Mr. DUXBURY. I think we need figures on that; we don't have them; we need a study on that.

Senator PROXMIRE. What kind of meat particularly, hogs, beef?

Mr. DUXBURY. I think all kinds of meat products, poultry as well.

Senator PROXMIRE. Let me just ask one other question, Mr. McHale, before I yield to Congressman Brown of Michigan. You have a specific proposal that is quite intriguing, for increasing competition. You suggest establishing farmer co-ops, a kind of food TVA.

Mr. McHALE. Right.

Senator PROXMIRE. Cooperative farms against which the performance of vertically integrated food processors and retailers can be judged. That is certainly an interesting alternative should the current Joint Economic Committee's study of the food industry reveal that antitrust enforcement has been inadequate, and it will likely reveal that.

Why would the Government need to subsidize loans used to establish these food TVA's at 2 percent? That would be very hard to get through Congress, especially with the interest rates as high as they are now, and they are likely to go higher. The Government, perhaps, might provide initial capital, but not subsidize below market, the cost of capital.

Mr. McHALE. Well, let's talk about our priorities for the Nation. You see all kinds of subsidized efforts on the side of the industry——

Senator PROXMIRE. But then you don't have a very good comparison, you don't have a very good yardstick if the cost of capital for the co-op is a great deal less, you will get the argument, "Of course they get the capital a lot cheaper, of course they can compete." You would be in a better position if you made the capital as close as possible to the market, for one thing, you would have more support and no subsidy, or the subsidy would be very slight. You would therefore have a better basis for comparison, if we are comparing efficiency.

Mr. McHALE. The thing I feel very strongly about, we have been subsidizing the military for years. And do we want to subsidize the two programs to get them off the ground? That is the basic question. I do want to do so; and that is the reason I am recommending the 2-percent money. We have done it; that has been Government policy in the past, and there is no reason we shouldn't continue that on new programs, to set a yardstick.

Chairman HUMPHREY [presiding]. Mr. McHale, I'm sorry that I wasn't here to hear what you had to say, I have great admiration and respect for you, and I might say that with equal sincerity to you, Mr. Duxbury.

I had to be at the Senate Foreign Relations Committee to help tighten up a bill that we needed to bring to the floor this morning on the evacuation of American citizens from Vietnam.

Mr. DUXBURY. We certainly understand.

Chairman HUMPHREY. Sorry, I had to leave.

Mr. McHALE. I would just like to congratulate you personally and thank you for your efforts in the Joint Economic Committee, you are certainly on the right track.

My testimony was a little bit different from the prepared version. On the whole broad front, we are talking about busting up monopolies and getting free enterprise back into the system. We have to establish priorities to survive as a Nation.

Chairman HUMPHREY. Let me just say, what we are doing here in this hearing is only a part of a much larger picture in this committee. We are interested in rural America, not just in the crops and prices, even though the best type of rural assistance is a fair price for what a person produces.

I was the author of the Rural Development Act, and somebody asked me the question, "What do you think is the most important ingredient, or the most important thing we can do on our rural development?" and I said, "See that the farmer gets a fair return on what he produces, that will do more for rural development than all the bills you can pass."

But the whole area of rural life,·health, education and transportation, the development of small industries in rural communities, the whole infrastructure relates to the quality of life and economic viability of the agricultural sector. And, of course, none of this will come about if you have a collapse of agricultural income.

I listened attentively to the commissioner from Minnesota whom I know very well, and I agree with everything that Senator Proxmire said about him. He is an extremely able person, and you people have been working together pretty much as a team. Mr. Duxbury comes from a State that has a somewhat different agriculture than the State of Minnesota or Wisconsin—they are very much alike, the Minnesota and Wisconsin area—Pennsylvania has a very diversified type of agriculture. When people think of Pennsylvania they think of Philadelphia, Pittsburgh, and steeel production. In Minnesota they generally think of 10,000 lakes, iron mines, and the Mayo Clinic.

But I guess we can both say that agriculture is still basic to our economy. What I got out of the testimony that I heard here, which I know has been collaborated by you gentlemen because I see Mr. Duxbury's statement here, and yours, Mr. McHale, is that there really isn't any way to get the American economy up to where it does provide full employment, where it does utilize its plant capacity until you get the agricultural sector of the economy producing at income levels that gives it an assurance of profit and gain. I believe that's what it all boils down to.

Mr. McHale. I also mentioned that fact that the railroad system ought to have top priority, so that we can get across the Nation with the railroad system. The maintenance of the railroad tracks is a public service job, especially in view of the inflation.

Chairman Humphrey. I couldn't agree with you more.

Mr. McHale. Is that going to be part of your recommendation?

Chairman Humphrey. Yes, indeed. In fact, I am working with the Governor of Pennsylvania on this trust fund proposal. I have legislation in now in the Senate for that trust fund, for the Government taking over the maintenance and the right-of-way of the tracks, so that we have a system of tracks that can carry our commerce. And I must say, I hope the Department of Agriculture is weighed in, Mr. Paarlberg, putting in your word on this business of rural transportation as it relates to our railroads. You are doing a study in conjunction with the Committee on Agriculture and Forestry, and I offered a bill on it. Are you continuing your efforts in this?

Mr. Paarlberg. We have produced our study and transmitted it to the Congress, and it has been very well received. We are continuing our work in this area, Senator Humphrey, not only in rural transportation, but water transportation.

Chairman Humphrey. Yes.

Mr. Paarlberg. We make the farmer's case in the ICC hearings, and we try to do as well as we can in providing a basic analysis which will enable Congress to enact legislation.

Chairman HUMPHREY. I think your study was very good, I read it; and indeed I asked for it, as a matter of fact, on behalf of the committee. It is a very good study, and we have sent it out to highway commissioners, the different regulatory authorities in the States that have to do with rail and truck and water transportation. We desperately need better transportation for rural America.

Mr. PAARLBERG. May I make this comment, Senator Humphrey: We have sent up to your committee a number of reports on various things, agricultural outlook, the world food situation, transportation and whatnot, and a number of these your committee has printed and distributed widely and very helpfully, and we appreciate that very much.

Chairman HUMPHREY. We are going to try to embody in the record of the Joint Economic Committee some of these reports by reference, so that we have them relate to this testimony. The testimony of this committee is read many times by people in the economic field, maybe even more so than some of the legislative committees; and that is why we needed you here.

Might I ask, Mr. Paarlberg, since you have been very patient, and I might say very respectfully, sir, because I have high regard for you and your great public service; do you have any comment you would like to make after a rather contentious session that we've had? Where we all have our point of view; if you have any summation you would like to make, we will be pleased to hear it.

Mr. PAARLBERG. Yes, Senator Humphrey, I would like to comment on the point that you raised, the question that you asked, the difference between a floor price of oil and a floor price for agricultural products.

There are two points. One is that there is a fundamental difference between oil and food in this respect, that for oil we need the incentive process that is called for added supply of domestic sources that we need to escape the vulnerability that we have. Now, we do not need a similar stimulation for agricultural production. Much of the concern that was expressed here this morning by the various witnesses was about an excess of agricultural supply, and consequently a depressed price situation.

Chairman HUMPHREY. Yes.

Mr. PAARLBERG. So, the impact on supply differs markedly between these two commodities.

Chairman HUMPHREY. Yes.

Mr. PAARLBERG. And the other point is that it is not only the presence of a price floor which to the administration has itself some reality to it, it is the matter of the level of the floor. Now, a floor for farm prices that cuts off the excessive decline in price that would be disastrous for the farmer, that the administration does support.

But if that floor is at such a level that it artificially induces unneeded production, then it is to the disadvantage of the farmer himself.

So, there are distinctions between the oil situation and the agricultural situation, being the nature of the desire of affect on output, and the other being the respective level of the floor.

Chairman HUMPHREY. Very good. Mr. Paarlberg, you heard Secretary Butz say that there was consideration given to adjustment in loan rates. Is this a realistic proposition, or is that just a general discussion?

Mr. PAARLBERG. Well, Senator, as far as Secretary Butz is concerned, and as far as I am concerned, it is a realistic thing.

Chairman HUMPHREY. In other words, you are going to make recommendations in this field.

Mr. PAARLBERG. I can say in all fairness that we have done so. I hope it was not injudicious on my part to make this frank response, but that whole matter is the subject of the Secretary's visit to the White House that has caused his early departure from here.

Chairman HUMPHREY. And the Office of Management and Budget gets involved in these decisions.

Mr. PAARLBERG. They do indeed.

Chairman HUMPHREY. But I just note for the record here—and I am not pressing the point—there are two authorities the Secretary has, even without a change in the law; namely, the adjustment of the loan rate up or down—and in this instance obviously up; and second, the purchase power under the Commodity Credit Corporation.

Mr. PAARLBERG. That is correct. And one more, I might add, that is already in the law, and that is the authority to provide for a set-aside——

Chairman HUMPHREY. Oh, yes.

Mr. PAARLBERG [continuing]. If the supply situation should become so unbalanced to call for that action, which would be reluctantly taken, but nevertheless, it is there.

Chairman HUMPHREY. And the land set-aside we had once before, the natural reserve setting aside plan.

Mr. PAARLBERG. I might say, Senator Humphrey, that the authority to cope with the situation of excessive supply and deeply depressed prices, the authority to cope with that situation is presently in the law.

Chairman HUMPHREY. I thank you very, very much.

Mr. MCHALE. May I make one statement?

Chairman HUMPHREY. Yes, Mr. McHale.

Mr. MCHALE. I really think I have to go on the record in regard to Mr. Paarlberg's statement that oil is more critical than food—I think food is more critical than oil. I think we talked about an international food crisis last fall. We have a lower supply of food around available than we did during World War II. And if anything, I think that food is a higher priority than oil.

Mr. PAARLBERG. I certainly wouldn't disagree with what Mr. McHale said, on the importance of food. I know very well it is more important than oil. It is not only a matter of importance, however, it is a matter of which is in greater need for stimulation.

Mr. MCHALE. With the world food supply, I just don't see that oil is more critical.

Chairman HUMPHREY. We didn't get into food reserves here, I imagine we'll have to come back on that, but our time is running out; we can't do it all in 1 day.

I do want to thank you. Mr. Harsh, is there anything you would like to add?

Mr. HARSH. No, Mr. Chairman.

Chairman HUMPHREY. I appreciate your attendance, and you have been very generous with your time, all of you here; thank you very much.

Mr. Duxbury, do you have anything further you would like to comment on?

Mr. Duxbury. I certainly appreciate your interest in the family and rural development concerns. My family is operating a family farm, and it is of great concern to me in this area. I certainly could see in the comparison between oil and beef that we could depend more on foreign supplies; but if the beef industry stays in the present economic conditions for a few years, we will be relying more on foreign supply of beef, which I think is in direct comparison to what's happened in oil.

Chairman Humphrey. Do you think some of the boys held onto their beef cattle just a little too long?

Mr. Duxbury. They did, some of them did. And I think part of the reason was, like you mentioned earlier, the boycott and strike, everything piled up in the marketing procedure, they held on too long. They made some adjustments in cattle, and they are willing to take their share of the blame for it. But they did respond to all-out production in 1970 to 1973, that called for more production of beef. They responded to produce that, and found themselves in trouble just a year later with overproduction.

Chairman Humphrey. I thought that the Secretary indicated that livestock in feedlots was going up this year; am I mistaken? I know you said to the contrary.

Mr. Duxbury. The number of cattle in feedlots has gone down.

Chairman Humphrey. You have here, despite more cattle being available for feedlots, cattle feeders have cut back severely.

Mr. Duxbury. Yes.

Chairman Humphrey. There is a difference, some are available for feedlots, but they are not going to feedlots.

Mr. Duxbury. Many of these are on grass, range land. And many of the feedlots, as you well know, in Minnesota, Iowa, and in South Dakota are empty. This will cut down on the tonnage, these cattle will be going to market at lighter weight.

Chairman Humphrey. There is always a little problem that I see here, and I don't know what the answer is, in this mixed kind of agriculture that we have in Minnesota. We have these feed grain producers who, of course, want as high a price as possible for feed grain. And when the price on poultry and pork starts to slip a little bit, then the extra price in feed grain continues to depress, makes it even more difficult for the livestock feeder. How could we get at that? It kind of calls for Solomon's wisdom, I don't know how you would work it.

Mr. Duxbury. There is competition between the livestock man and the grain producer. But last year has pointed out to them that both must rely on profit, and there must be a balance. I don't believe the livestock producers believe that cheap grain and a large grain crop is going to satisfy the need in our State. Both are going to have to produce at a profitable level. We can't have the livestock people make a profit 1 year and the grain people lose that year; and turn it around next year. That boom and bust in agriculture, as we have seen in the past year, all-out production in one area, and a turnaround then. That can't continue to the benefit of the Nation's economy.

Chairman Humphrey. See, it is easy for us sitting here, Members of Congress, talking about stable prices, and a good price relationship. Isn't it almost inevitable out there where you are a producer, that you would just like to see that price go up as high as you can, and there is a kind of a gambling instinct, sort of a "boom and burst" philosophy, but hopefully no burst.

Mr. DUXBURY. Certainly we would linke to see a high price for our product, but we can see, coming right from farming and being in that position only 2 months, I have nothing brought out clearer to me than the weekly unemployment in Huron; and it is less business for a drugstore, which we do business with your drugstore as well.

Chairman HUMPHREY. We are all concerned.

Mr. DUXBURY. And we can't have unemployment in Huron, those people want to work there, and they need to work; and that is a concern of the farmer as well. That is why I think we have seen more interest, more people talking and more farmers concerned about how much should we produce so that we can make a profit. We want to produce all that we can sell at a reasonable price.

Chairman HUMPHREY. Now, you have heard Mr. Wefald speak about our part of the country, and it isn't just Minnesota, by the way, it is North Dakota, Iowa, and other places.

Mr. DUXBURY. We have had three meetings together, I have been in Iowa and Minnesota.

Chairman HUMPHREY. Is there going to be a cutback?

Mr. DUXBURY. There is going to be a cutback in our State, not so much in acreage, but in fertilizer.

Chairman HUMPHREY. I was just going to ask if that isn't one of the best ways to cut back.

Mr. DUXBURY. This morning either my wife or son are spreading fertilizer on grain production land on our farm, about 75 percent of what we spread last year per acre, that is going to be our cutback.

Chairman HUMPHREY. That is what I think is very significant in this testimony, that while some people will say the acreage is not going to be cut back, all you need to do with corn, or any cut acreage in my part of the country, you just cut on fertilizer, and that beats a cut in acreage any day.

Mr. DUXBURY. We are also going to have some acreage we are going to move into livestock feed because our reserve supply of feed is gone throughout the State, as you know. So, some acreage is going into crops that will give us a reserve feed supply for livestock.

Chairman HUMPHREY. All right. I know Mr. Paarlberg thought I was working around the corner there where we would be able to give the farmer a longer period of time to hold his loan, so it can't be called. And that is one of the ways to encourage the farmer to have a reserve on the farm, and at the same time have the advantage of picking the time to market his crop; that's what I would like. I like to give "Mr. Farmer" the chance to look over the economic picture. and the market; give him the option of when he wishes to dispose of his crops.

And if we can have a good loan program where he could hold whatever he has in storage under a Commodity Credit Corporation loan, you have a kind of continuing reserve, and you also give the farmer what I call market protection, the chance to manage his sale of his commodity within the market framework on a timely basis that is condusive to his interest.

Mr. DUXBURY. There is no question in my mind, Senator, you have much more support in the country from the farmer than a lot of people would like you to believe.

Chairman HUMPHREY. We got that in the bill. I think, Mr. Paarlberg, if I'm not mistaken, we got that up to 18 months.

Mr. PAARLBERG. I believe that's correct.

Chairman HUMPHREY. We had it first at 20 months, but we compromised on 18. If it's vetoed, however, we won't have it. However, it is possible under existing law.

Mr. PAARLBERG. That is right, that is voluntary, but I believe the administration can do that.

Chairman HUMPHREY. The administration can do that.

Again, I'm bringing these things out for the record because there are authorities in the existing law.

Mr. PAARLBERG. Indeed.

Chairman HUMPHREY. Thank you very much. The committee stands adjourned.

[Whereupon, at 11:05 a.m., the committee adjourned, subject to the call of the Chair.]

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