

F. A. S. PUBLIC INTEREST REPORT

Formerly the FAS Newsletter

SPECIAL ISSUE ON
U.S. AGRICULTURE POLICY

Vol. 26, No. 9

November, 1973

U.S. AGRICULTURE POLICY: IRRESPONSIBLY UNPREPARED FOR SCARCITY

Over the last half century, American agriculture has wrestled painfully with the problem of farm surpluses, and their depressing effect on farm income. Generations of agricultural economists and government administrators have developed, tried, and discarded a variety of methods, some still evolving: two-tier price systems, acreage allocations, government storage of surpluses, set-asides of acreage, reimbursements of receipts that fall below target prices, and so on.

Little or no thought has been given to the comparably complicated problems of world shortage. What conditions should justify export control? What kind of controls and allocations are appropriate? And what aspects of the current distribution systems, if any, are inconsistent with what kinds of export controls?

It is not possible to be sure whether an era of shortage, or chronic shortage, or occasional shortage, or renewed world surplus is in the cards. Much depends upon unpredictable factors, including especially the weather. But it is already evident that the possibility of scarcity is a real one and that the mishandling of food under such conditions would cost as many lives as some nuclear wars—lives of those already living in precarious conditions of agricultural supply, who often spend, already, 80% of their income for food.

It is only too evident also that the shifts from surplus to scarcity have unfortunate effects on our own economy. We are the world's largest exporter of agricultural commodities. Just as the farmer's income fluctuates widely with every change in farm prices, our own national economy is jolted by the impact on price levels of a rapid swing of world food price. The cost of these fluctuations of our price level can be inflation.

Therefore we owe it to the world, and to ourselves, to prepare to control the effects of food scarcity as well as the scarce food itself. If and when there is scarcity, it will come rapidly and dramatically; controls will have to be suitably well thought out. It is only too easy to imagine: business as usual in the absence of explicit danger; hesitation to plan seriously when danger signals arise lest the public and speculators be alarmed by the planning; followed by weak and poorly thought out policies that short-

change the poor (because they do not pay) and our economy (because it is so intimately geared to free market mechanisms). Too little and too late can bring disaster.

This planning is all the more important if, indeed, we find ourselves with surpluses of grain a few years hence. The handling of this surplus is closely connected with planning for scarcity. Such surpluses might be temporary while world demand caught up with all-out U.S. production. And, in any case, being only a small fraction of world consumption, they can evaporate with great rapidity in the face of bouts of bad weather. We have to learn to use them well.

Therefore, it is not enough to pledge ourselves: to try to avoid and foresee situations requiring export controls; to consult about them in advance with importing nations; to use controls sparingly; and to try to apply them equitably. The more fundamental requirement is to work out now a suitable national policy and an administrative program that would work. Such a policy and program do not now exist.

Some requirements of such a program can be outlined. In the first place, it should require large foreign purchasers to notify the U.S. Government of their intentions. Even the stock market suspends trading when large transactions produce a disorderly market. We have no obligation to permit very large sales to go forward in traditional commercial secrecy—especially when they come from Communist non-market states pitting unified state monopolies against separated American traders.

(Continued on Page 2)

Approved by the Federation Executive Committee, the above statement was reviewed and endorsed by these leading consultants on food production and agriculture policy:

Dr. Norman E. Borlaug Prof. George E. Brandow

(See page 2 for identification)

The September FAS Report was devoted to World Food Production and the possibility of future scarcity. It set forth four general principles for U.S. policy. This issue investigates U.S. Agriculture Policy in the light of those recommendations.

An export control program must recognize also that—under present market procedures—the most perfect reporting system in the world cannot be relied upon to provide precise results. So long as we let middlemen sell to their overseas subsidiaries, and so long as sales are fulfilled from other nation's granaries, as well as our own, it is quite impossible to remove uncertainty from the reports filed. Nor can a system of export controls allocate by country until the problem of unknown destinations and transshipment is resolved.

It should be noted that all other large exporters of wheat—the Canadians, the Australians and the Argentinians—have replaced these middlemen with wheat boards; these function as the only buyer and seller of wheat and feed grains and can, therefore, refuse to accept sales they do not completely understand. A U.S. mechanism with comparable characteristics may some day be necessary under emergency conditions. It is entirely possible, however, that no economist or administrator in the country has thought through how this would work in our society!

As protection against inflationary surges, it may some day become necessary to hold our food prices below the level of world food prices. We know, from long experience, how to do the opposite with export subsidies. But export taxes are prohibited by the Constitution. There are ways to avoid this problem without a Constitutional amendment but they are tricky and require advance planning. Options should be prepared and discussed with Congress. Under such conditions we may also need complementary arrangements to hold down U.S. consumption, perhaps voluntarily. These also require thinking through.

To protect against the possibility of surplus followed by scarcity, we must prepare to move our surplus into reserves held here and around the world in ways that maintain stabilized prices. This may well require loaning poorer countries the funds with which to purchase their own reserves from that surplus (and to build storage units). Certainly it deserves the participation of all developed countries contributing funds and food, whichever they have, in the interests of the stable prices they all require and desire, and the humane food policy they owe to the developing nations. But while the World Food Organization solicits plans for world food reserves, our own nation has no such plan and is widely believed to be dragging its feet in the acceptance of plans by others.

The importance of beginning to think about these problems cannot be over-emphasized because they are far more difficult than they may seem. They require the splicing of non-market mechanisms with a deeply committed American free market. And they require positions at odds with the interests of millions of farmers for whom soaring prices are a holy grail and inflation a debtor's haven. If it has not been easy

to satisfy this politically powerful group with methods supporting prices, the difficulties of gaining acceptance for methods of holding them down can hardly be overestimated.

As an organization of natural and social scientists, including economists, we cannot emphasize too strongly how low is our "stockpile" of intellectual preparedness for these problems. Such preparedness is a long-lead-time item. Scarcity may or may not be upon us. But the time to think and plan for scarcity is here. □

CREDENTIAL OF CO-SIGNERS OF FAS STATEMENT, PAGE 1

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MECHANICS OF U.S. AGRICULTURE POLICY

Farmers in free market countries are the victims of inelastic demand. This means that farmers as a whole lose total revenue if they expand supply; the increased volume of sales does not compensate for the drop in price that results from greater production. This keeps farmers poor, since—were they make good profit—production would be expanded, prices would then drop, and with this drop, total revenue would also decline until farming ceased to be profitable.

This dilemma forces farmers to find some way of banding together, as a kind of cartel, to hold down production and maintain high prices. Because there are so many farmers, and because such activities would be illegal restraint of trade, they have turned, historically, to the Government for help.

There are three ways in which the Government can ensure higher prices. It can restrict crop production by asking, requiring, or arranging that land be set aside—removed from production. In times of scarcity, the land can be released for production.

Alternatively (or in addition) the Government can set a target price for a specific commodity and buy that commodity until the price rises to the target. The surplus bought can then be stored until such time as relative scarcity prevails. At this point, the surplus can be sold to keep the price from rising above the target. Thus this method tends to stabilize prices. In the early forties, a Commodity Credit Corporation (CCC) was established to buy and sell surplus for this purpose. In addition, the surplus can also be provided to those at home and abroad who could not, in any case, have purchased the commodity. This leads to school lunch programs and Food for Peace plans. In times of surplus, the CCC loans the farmer money on grain and even goes so far as to permit him, if prices subsequently rise, to regain the grain, and sell it, simply by repaying the loan.

Brannan Plan Approved

The third possibility for supporting farm incomes is the so-called Brannan plan. Here, farmers simply sell their production at the market price. But the Government keeps track of the price the farmer receives and provides him with the difference between that price and some established target. In this case, the consumer gets the farm products more cheaply than he would when prices are supported by the methods above. But the consumer pays for his advantage through the higher taxes necessary to pay the larger rebates to the farmer. This approach was recently legislated in the Agriculture and Consumer Protection Act of 1973. Target prices for leading commodities were:

- \$2.05 per bushel for wheat.
- \$1.38 per bushel for corn.
- \$.38 per pound for cotton.

Applying any of these methods requires a political decision. How does one decide how high these target prices should be—or, alternatively, how much land should be taken out of production? The farmer thinks in terms of a price-cost ratio—the ratio between the prices he re-

ceives for his goods on the one hand, and the prices he must pay for inputs to perform his function and to live. And he compares this ratio, historically, with an era which he preferred, 1910-1914, so as to formulate a Parity-Price-Ratio. (Thus the Senate urged that wheat prices per bushel be set at 70% of the May 1, 1973 parity price; i.e., a rate per bushel that would keep the income in proportion to production costs and at a level of 70% of the corresponding ratio in 1910-1914).

The prices received by farmers have recently climbed dramatically to meet the prices paid by farmers. In August, 1973, parity hit 107% if government payments are included. (It declined to 99% in September). Only the period 1942-1952 had been so high in the last 50 years.

Increases in Productivity Complicate Problem

In addition to the problem of inelastic demand, American farmers are plagued with rapid increases in agricultural productivity—increases even more rapid than those in industrial productivity. In 20 years, output per man hour on farms went up 310% while the comparable output in manufacturing industries went up only 170%. As a result, the capacity of American farmers to produce a large surplus has increased. And farm prices have declined relative to non-farm prices except during war and in the most recent years following the Soviet sale.

Much of this increase in productivity has been encouraged by Government programs that helped farmers improve their efficiency (even while the same farmers were being encouraged to restrict production). Not too long ago studies showed that even the withdrawal from production of 70,000,000 acres (20% of the 340 million acres used annually for production) would not prevent surpluses in the absence of abnormal foreign demand or bad weather.

Attitudes of the Farmers

In a sense, farming may be America's most socialized sector. Until this year 20% of the farmer's net income sometimes came in the form of Government subsidies. But the farmer has always wanted this assistance to be designed in ways that least resembled welfare. The result has been a variety of techniques, almost all of which have been condemned by economists.

Almost all economists feel, in the first place, that a substantial fraction of existing farmers should long ago have been moving off the farm and into the industrial and urbanized world. Why have more farmers, each restricting production; let the less efficient ones move into other work! To the extent that politics make this solution impossible, the economists prefer direct income supplements paid precisely to those farmers who need them. Unfortunately, this looks too much like welfare to the farmer. He prefers methods that maintain an artificially high price (euphemistically called a "target price") or a method that pays him for taking land out of production (euphemistically called "production adjustment", "allotments" or "set-asides"). These methods require, however, the public to pay benefits to many farmers who do not

need them (sixty per cent of direct Government payments in 1970 went to 20% of the farmers—those with gross sales of over \$20,000). Thus, the farmer with a great deal of land, and high production, benefits proportionately more—and needs it proportionately less—than the poor farmer.

AMERICAN TRADE POLICY

Faced with a long history of surpluses, American trade negotiators have struggled to liberalize trade in agricultural production from the beginning, but with little success. Farmers in all the industrialized countries have lower incomes than non-farm groups. But they all have political potency. And they have traditionally been protected. Many trade experts believe that the liberalization of agricultural trade can only be solved in time spans measured in decades.

The world cost of protectionist methods and domestic price supports in agriculture has been estimated at approximately \$40 billion, including \$13 billion in the European Community and \$10 billion here. But recently, the European Community has become more, rather than less, protectionist in its struggle to design a Common Agricultural Policy (CAP) among its members. It has developed a "variable levy" which taxes incoming agricultural products at whatever difference there may be between the price outside the community and the price inside—thus it effectively forecloses imports.

Under these circumstances, and before the current bout of scarcity, American negotiating strategists estimated that trade liberalization could double U.S. export in 1980 from a projected \$8.9 billion to \$18.4 billion, while imports rose only \$1.3 billion from \$7.7 billion to \$9.0 billion. (See Agricultural Trade and the Proposed Round of Multilateral Negotiations (Flanigan report) published by Senate Committee on Agriculture and Forestry.) These gains were expected primarily from the feed-livestock sector; about half from grains and feeds and half from livestock products.

Without liberalization, it is estimated that our gains in Eastern Europe and Japan would be offset by the loss of the market in Western Europe; meanwhile, increasing yields at home would outrun domestic demand. The result would be large increases in Government costs of managing the resulting agricultural surpluses—costs of a few billion per year.

The Flanigan report therefore considered three possibilities for our negotiation strategy. In the first package, modest liberalization of trade would be negotiated; this produced a modest increase in exports, but an even larger increase in imports and no benefits to the American farmer. Secondly, somewhat more thoroughgoing liberalization of trade was assessed in which more emphasis was placed on market mechanisms, and the European Community gave up its variable levy for fixed duties. This had a mix of advantages that off-set each other. Finally, a third alternative was considered of "substantially full-market orientation" by all trading partners. In this case, farmers would gain more through exports than they would lose through a decline in Government payments. Indeed, this liberalization would not only produce rises in prices

—it would, according to one estimate, do so while using all available "set-aside" land.

In short, the Flanigan report concluded that the farm problem could be solved with liberalization of trade while maintaining all existing farmers and increasing their income. And this liberalization would benefit others as well. Specifically, the liberalization would have to come from the feed-livestock sector. Liberalization in this sector would eventually have the following annual benefits in terms of balance of payments: U.S. \$8 billion; Argentina \$2.3 billion; Australia \$2 billion; New Zealand \$1.2 billion; European Community \$0.5 billion. Japan would incur a whopping deficit of \$14 billion. But its consumers would benefit substantially from lowered prices and increased protein content in their diet.

Strongly attracted by these benefits, the report suggested threatening a return to protective import duties if the grain-feed-livestock sector was not liberalized.

Export Controls

While the Flanigan report was being prepared in a context of expected surplus, the U.S. was trying to control inflation, soon to be exacerbated by food scarcity and rising foreign demand. On August 15, 1971, President Nixon announced a 90-day freeze. He invoked the Economic Stabilization Act of 1970 which authorized him to "issue such orders and regulations as he may deem appropriate to stabilize prices, rents, wages, and salaries". It did not, however, permit him to control exports or imports.

On November 14, 1971, Phase I was followed by Phase II (flexible controls with exemptions and adjustments monitored by a Cost of Living Council, a Price Commission, and a Pay Board). This worked well. 1972 was a good year for the economy with a cut in inflation to about 3% by its end, a drop in unemployment, and substantial growth in real GNP. But fourteen months later, on January 11, 1973, the President abolished mandatory wage and price controls, terminated the Price Commission and Pay Board, and announced Phase III. As shown in figure 1, the consumer price index simply took off with food prices leading the way!

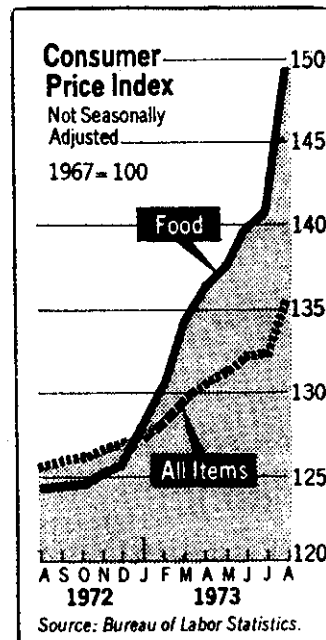


Figure 1

On June 13, 1973, the President ordered a 60-day freeze on all prices paid by consumers. It did not include unprocessed agricultural products at the farm levels, nor rents, nor did it include wages.

He said that increased foreign demand for food had been a major reason for the price rise. In allocating America's farm products between foreign markets and domestic ones in future, he had decided to "put the American consumer first" and to ask Congress for new and more flexible authority needed to impose an export system. In 1969, the Congress gave the President the power to control exports in the Export Administration Act, in order to curb domestic inflation. But in order to use the authority, the President had to certify that the inflation was the result of "abnormal foreign demand" and that the commodity to be controlled was a "scarce material". After some equivocation, the Administration decided to ask for stronger authority—in effect, the deletion of the two necessary findings concerning demand and scarcity.

Thus the President would have been able to control exports across the board simply on the grounds of inflation. Since inflation is endemic, it might—among other things—effectively give the President authority to threaten export controls in trade negotiations. It seemed unlikely that the authority would be granted.

Events That Might Trigger the Need for Export Control

The control and allocation of wheat takes on special importance since it is the only food grain in sufficient supply to combat hunger in the event of world crisis.

The Soviet Union is now the world's largest producer, ranging typically from 18 to 30% of world production, compared to the 21 to 31% produced by the four major exporters put together (U.S., Canada, Australia and Argentina). But Soviet per capita wheat use is three times our own. And Soviet production and yields depend heavily on the weather. With such a large supply of the world's production of wheat at risk—and inasmuch as the Soviets can now pay for wheat if their crop fails—we might expect periodic Soviet crop failures followed by periodic Soviet raids on the foreign market. Unfortunately, Canadian wheat yields also fluctuate widely with climatic conditions.

There is also the possibility of dramatic and unexpected events: wheat blight of some kind, changes in climate which have occurred periodically producing dust bowls. The effect of these events, or others that tighten supply, will be dramatically heightened if the world enters a period of greater demand and lesser surplus. With fewer acres set aside in America, with less food in reserves, and with prices firm, little need happen to any one of the four wheat exporting countries, or to one of the larger importers of grain, to precipitate a crisis in world prices.

Quite apart from these dramatic happenings, there are other, slightly more pedestrian, calamities. There is the possibility of further devaluations of the dollar which would make U.S. agricultural exports a still better bargain, and a way to absorb the huge overhang of dollars held in foreign hands. One cause of such devaluations could be problems in paying the bill for U.S. energy imports, leading to balance of payments difficulties.

THE VOICE OF EXPERIENCE

Mr. Lazarus: . . . I recently had the experience of attempting in a 5-day highly concentrated period to develop an equitable export allocation system. That is not the same as an information system but I surely was taught the difficulties of attempting to do this in a short period of time. So that might also argue for standby controls.

I know you can be criticized for acting precipitously in not having appropriate information, but the very act of setting out to gather it sets a chain or can set a chain of events in motion which can cause the very conclusion you are trying to avoid. It is almost a situation that feeds upon itself. So if we had started to gather information . . . people in the market would start becoming concerned that the Government was anticipating the imposition of controls and, therefore the flow would begin to accelerate and we would reach the trigger threshold a lot sooner than we ultimately did reach it.

Steven Lazarus, Deputy Assistant Secretary for East-West Trade, U.S. Department of Commerce. □

Inside the United States, a general era of scarcity of supplies of different kinds might lead to unexpected complications in agricultural production. Americans are already startled to discover that fuel shortages may complicate the ever more technological job of producing food. Fuel for the tractors, and for the ingredients for fertilizer, are the most recent candidates for bottlenecks. A world may emerge in which expansion of U.S. food production might be hampered by shortages of complementary inputs.

Outside the United States, there is always the prospect for unexpected but steady increases in demand. The demand for wheat and for meat in Japan arises from a very successful effort during the Allied occupation, to induce the Japanese to change their traditional tastes. In an ever smaller world, with greater communications and trade, it is conceivable that shifts in tastes might accelerate and heighten demand for the products we export. The skill of multinational companies in merchandizing may be relevant here.

A new reverse phenomenon, but having much the same effect, is the growth of U.S. acreage in soybeans. Here we seek to satisfy foreign tastes for food in the Orient (and for feed grain production). The necessary acreage can begin to reduce the acreage available for wheat and corn. Twenty per cent of our production acreage is now devoted to soybeans.

Also, American agricultural efficiency tends to depress and destroy foreign agriculture in less efficient nations by periodically, in times of surplus, underselling them. Thus we complicate the problems of organizing a stable system of production and distribution.

Paradoxically, therefore, liberalization of trade—as suggested in the Flanigan report—could make stand-by export controls more necessary. It would heighten world dependence on U.S. allocation by reducing production of the less efficient foreign competitors in agriculture.

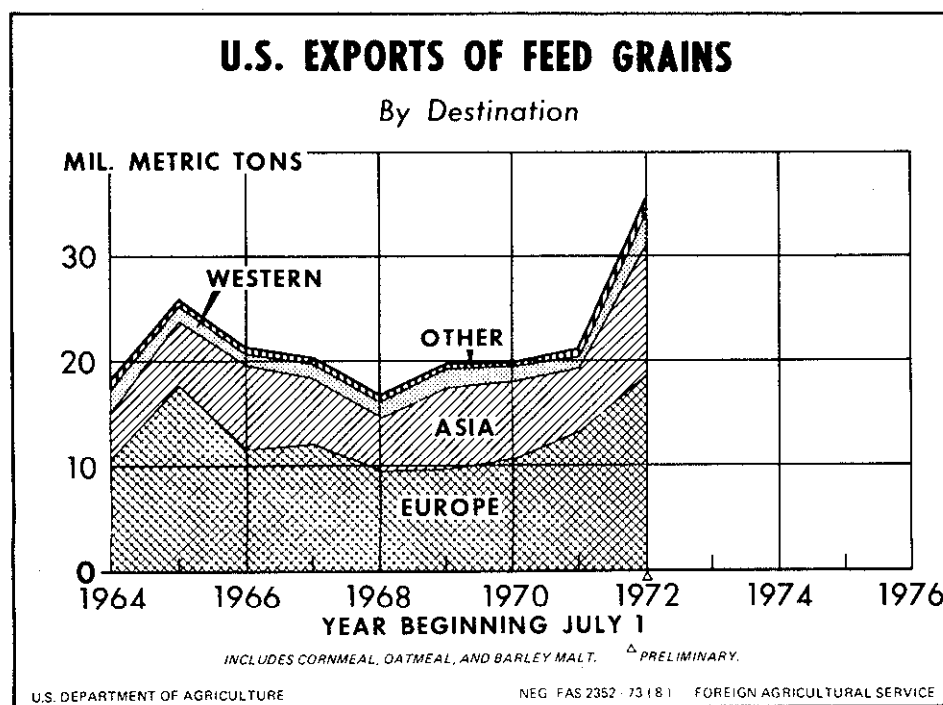


Figure 2

World Reserves

Obviously, it would be better to make such allocative mechanisms unnecessary by proper management of reserves. A proper system of world reserves would contain stocks held by Government to soften the impact of such commercial emergencies as were involved in the Soviet wheat deal. Such stocks could be accumulated in times of surplus and the accumulations would also help dampen swings in price and volume of international trade in specific commodities. Most important, strategic reserves could be held against crop failures in developing countries without the means to pay commercial prices.

Unfortunately, the U.S. Department of Agriculture looks much less favorably on a system of world reserves than it does on liberalized trade. Traditionally, food reserves, no matter how controlled, look to farming interests as a price depressant since, under one circumstance or another, they would be released onto the market. As a result, the Department has not responded with a plan for world reserves despite the call of FAO Director Addeke Boerma. It is evident that considerable cooperation will be necessary, among several exporters, before such reserves can be institutionalized. This will take time at best. The world seems hell-bent on gambling on good weather for the coming years. If the gamble is won, surpluses can be expected in about 1976. If it is lost, tens of millions of people might die. Unprotected by world reserves, or even workable export controls, America seems unable to do much more than place blind faith in the free market and the price mechanism even while trading with state monopolies. This can hardly be considered an enlightened policy.

Long Range Projections

As far as wheat is concerned, 1970 projections of the Department of Agriculture suggest that 1980 will see a

world "cushion" in wheat of 22 million tons, by which supply will exceed demand. This cushion would arise out of world production estimated at about 350 million tons. In short, in the models assumed, and for the prices estimated, supply might exceed demand by about 5%. Of course, such long-range studies are rather more interesting for their assumptions than for their precise results.

While wheat consists of 28% of world grain production, coarse grains consist of 52% (rice accounts for the rest). The significance of coarse grains is as the overwhelmingly most important source (90%) of grain fed to livestock. The demand for meat, and the large amounts of grain required to produce a pound of meat, are scheduled to produce together a lively trade in feed grain for livestock. As one might expect in a meat-related trade, it is concentrated in the developed world with a few highly efficient exporters (United States, Argentina, France, South Africa, Brazil, Canada, Mexico, Thailand and Australia), accounting for 80-90% of the exports. Eighty per cent of this is sold to the affluent markets in Western Europe and Japan.

With increasing affluence, world feed-grain trade has grown rapidly. Most of the recent increase in exports has come from the United States. It is this trend in feed grain which is keeping Secretary of Agriculture Earl Butz enthusiastic about the prospects for American exports. See figure 2. According to Department calculations, 10% increases in per capita income abroad will produce 6.5% increases in the demand for meat with its related requirement for several pounds of feed grain per pound of meat. And prices of meat are already high—higher in Japan and Western Europe than here—holding out the prospects for continued requirements. □

AMERICA OVERSOLD ON WHEAT

As part of President Nixon's announcement on June 13 of efforts to stabilize the economy, the Department of Commerce initiated a reporting system on a variety of agricultural products. Exporters were to announce their contracts after these were agreed. The system is now under the authority of the Department of Agriculture and it calls for reports in three categories: export sales to a foreign buyer; exports made to selling agents or subsidiaries of the exporter outside the country; and "optional origin contracts" in which the contract has been written without specifying from which country the commodity will be purchased.

This breakdown reveals how little even the most perfect reporting system can do. The sales to a subsidiary can be reversed later. The optional origin contracts may be fulfilled by purchases from some other country. Indeed, anticipating a U.S. embargo that allocates sales in proportion to outstanding contracts, some exporters automatically list the United States as country of origin to artificially increase the total to which they would become eligible in case of such an embargo. Whether or not the exporter does, in the end, purchase from the United States is quite another matter. This is why the following breakdown is possible—in effect it shows that far too much wheat has been sold and that the carryover for the next year is an impossible and unworkable zero.

Thus early October figures from the Department of Agriculture showed that 368 million bushels of wheat had been exported, 723 remained to be exported, and 267 million bushels had been recorded under "unidentified" export. The first two categories, by themselves, consumed all the 1.1 billion we had planned to export.

Department Explanations

When Department specialists are asked why this breakdown is not reason to believe that an embargo will be necessary, they rely instead upon their own estimates of demand. "That much wheat could not be sold, they say, because there are not that many buyers." What if there were sufficient demand, perhaps in some other year? Obviously a reporting system of this kind is inherently inadequate.

And the demand may be there now. For example, one was forced to hope that the 267 million "unidentified" bushels already scheduled for export was bought somewhere else (under optional origin) or sold back from subsidiaries to their parent firms (because foreign buyers could not in the end be found). But as far as finding other exporters outside America to sell the 267 million bushels, it seemed most unlikely. On October 17, Dr. Don Paarlberg, Director of Agricultural Economics testified that Australian supplies were committed, Argentina was oversold, and the Canadian Wheat Board was servicing traditional customers. He also said countries might well be increasing their normal levels of stocks in protection against scarcity. (If so, the Department's reliance on estimates of underlying demand becomes pointless). Since the Department is expecting a carry-over from this year to the next year of only 251 million bushels, it has to hope that *all* of the unidentified exports fail to materialize.

This sounds so crazy that it explains the fact that the Department released figures on September 14 on anticipated exports without including figures on what had already been exported! Desperation breeds obfuscation.

The Canadians (and Australians) do much more than just monitor reporting. The Canadian Wheat Board, which grew out of the instabilities of the market after World War I, buys and sells all wheat. The Board owns no facilities of any kind to transport, store or otherwise handle grain but uses private organizations. It pays the farmer a fixed amount per bushel and, from the funds obtained by foreign sales, rebates further payments to producers.

Wheat Board Equivalent May Be Needed

It is difficult to see how, in times of real world-wide scarcity, America could control exports without some functional equivalent of this board, if it were going to control domestic prices and allocate supplies to established purchasers and to needy countries.

Consider the problem. Faced with imminent scarcity, exporters will begin immediately to register foreign sales—to their subsidiaries if to no one else. When and if an embargo is slapped on, it can take several forms but none of them is especially suitable. In the case of the soybean embargo, a proportion of each contract was awarded. Conceivably, contracts could be awarded on a first-come first-served basis. But neither of these will allocate the grain to those who need it or protect established purchasers.

In the case of soybeans, because America is the main supplier, export licenses could be so arranged that they were granted in sufficient quantity to supply established buyers. But in the case of wheat, where a handful of countries, rather than one country, exports, one would be rationing wheat to countries who can purchase elsewhere as well.

Furthermore, under conditions of great demand abroad, it will become necessary to control American prices also, if only to protect against the inflationary surge that would otherwise result. As we have just seen, rapid increases in food prices can upset the entire economic stabilization program. But with prices held down in the United States, there would be enormous profits to be had by exporters selling at higher prices abroad. Why should they hold the profit? Should it not, as in the case of the Canadian Wheat Board, be refunded to the farmers? Indeed, without such refunds, would the farmer be willing to accept controls on food prices at home, controls that lost him the chance for profits abroad as well as higher profits at home.

Obviously there are many methods under which controls could operate; it is impossible to be dogmatic about any one solution. But real scarcity abroad is going to require centralized control of the available commodities. To the extent that control is not centralized, can anyone doubt that profits and control over allocation will be rapidly lost to an ingenious and pervasive free market sector? □

MORE ON SOVIET WHEAT DEAL

A new book, "Amber Waves of Grain" by James Trager, reports skillfully on the Soviet wheat deal. (See also FAS Report, September 1973.)

The book is at its most interesting in analyzing a series of mysterious phone calls from London to the Milling & Baking News in Kansas City. A "Mr. John Smith" repeatedly called the newspaper, which is the leading journal in the grain field, in an effort to get news of the Soviet purchase activities into print. Mr. Smith had an English accent but used a Russian style of address ("See here, Mr. Morton Sosland") and knew more about on-going Russian activities than could even our CIA have known.

What could his motive have been? The calls began after most of the Soviet deals had been completed and could only have had the purpose of making the price rise. Mr. Trager argues persuasively that it was a Soviet operative trying to trigger the price rises sooner rather than later to complicate the problems of Chinese grain purchases. China is now putting grain underground at a rapid rate as a precaution against possible war with the Soviet Union. Recently, the Chinese purchased \$1 billion worth of grain from Canada, at high prices.

The Special Investigations Subcommittee of the Senate Government Operations Committee has been investigating the entire wheat deal and has referred the testimony of the grain dealers about the Agriculture Department to the Justice Department for possible perjury on the question of who told Agriculture what. But the Subcommittee has not even been able to determine whether there were "Mr. John Smith" phone calls—which there obviously were. FAS urged the subcommittee to ask the CIA to investigate the overseas aspects of this matter. It represents a kind of interference in our markets that goes beyond the sale itself and deserves exposure. Conceivably the Administration knows more about this incident than it will say but prefers not to complicate U.S.-Soviet relations.

The Administration's role in this matter deserves close examination for circumstantial reasons. The sales came in July 1972; the election was, of course, in November.

Secretary of Agriculture Earl Butz had told interviewers that "My mandate from the President is to get farm incomes up." Indeed, at this stage in every election campaign, this is what administrations try to do. A large wheat deal could simultaneously help cement U.S.-Soviet relations while maintaining pressure on prices.

Did Department of Agriculture Know?

A key question is whether the Department of Agriculture knew, through communications from the large grain dealers, how much the Soviet Union was buying. The first volume of the hearings before the Jackson Committee on this matter have now been released and they leave little doubt to the careful reader that it did. In particular, three employees of Continental Grain have submitted depositions that they did meet with, and advise, an Assistant Secretary of the Department of the impending deal as part of the effort of Continental to get assurances that export subsidies would remain in force. They report a later affirmative answer from this official by telephone. The denials of the official in question, Mr. Carroll Brunthaver, are hard to credit and equivocal. He does not deny the meetings, but says that he cannot recall it—although, if held, the meeting would have been unforgettable.

If true, the information was obviously passed to him in what might be called semi-confidence; that is, it was meant to be relayed to the Government as part of the effort to secure assurances on the subsidy. But all concerned knew that the information was not to be made public lest it: perturb the markets; make it difficult for Continental to accumulate the grain; tip off competitors, and so on. In such a context, one can only be suspicious of Brunthaver's habit of linking even his qualified denials to the question of "confidentiality" by saying that he did not receive such non-confidential information (e.g., "If he had told me that and said it was not confidential . . ."; "I do not recall receiving any such information and have reason to doubt that it was ever communicated to me. In the first place, why would he give me such information and risk public disclosure . . . to commodity speculations . . .")

FAS PUBLIC INTEREST REPORT (202) 546-3300
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November 1973, Vol. 26, No. 9

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