

# EVALUATION OF AGRICULTURAL PROGRAMS IN TERMS OF ECONOMIC GROWTH, FOREIGN TRADE, AND POLITICAL FEASIBILITY

## Wheat

*Leonard W. Schruben*

*Professor of Agricultural Economics*

*Kansas State University*

A reasonably strong case can be made that the wheat industry over the past forty years has made substantial net contributions to the economic growth of the United States. Also, government programs undoubtedly have greatly affected the export of wheat and foreign trade of other agricultural products during the past several decades. The third factor, political feasibility, is perhaps the area of greatest uncertainty.

In trying to evaluate the wheat program, we can bring to bear objective measurements of what happened and subjective interpretations of the meaning of these events. I believe that we can agree fairly well on the scope and nature of these events. We probably will not agree as fully on what these events mean.

### GOVERNMENT PROGRAMS

Also, before considering data available for use in evaluation, we should be somewhat more specific about what government programs are under discussion. I assume we are discussing programs of the federal government which directly affect the supply of wheat and the forces brought to bear on the market through discriminatory government commercial action.

Under this concept, government wheat programs began during World War I with the direct intervention by government in the wheat market with established prices and a purchasing monopoly. Farmers were encouraged to grow more wheat by direct government action. Following the war an indirect approach was undertaken—supplying outlook information. The next direct program was the Federal Farm Board. Discriminatory government commercial action was taken to encourage orderly marketing. The program failed.

Since the 1930's we have had a succession of programs directly affecting production as well as providing discriminatory government commercial action, or a combination of both. Each act seemingly

provided for an increasing level of government participation in the management and operation of the U. S. wheat industry.

### ECONOMIC GROWTH

A casual examination would lead to the conclusion that wheat programs have hampered economic growth. That is, in view of the surplus of wheat, too many resources obviously have been used in its production. Since these resources might have been used to produce something else having a greater marginal value, they could have contributed more effectively to economic growth.

Several assumptions are implicit in this line of reasoning. One is that government wheat programs have caused the surplus of wheat. Government programs may well have helped in making the surplus take the form of wheat. Without those programs the surplus might have been in the form of corn, soybeans, hogs, or cattle. However, we have almost universal agreement that we would have had a surplus of resources in agriculture over the past forty years or so without a government program. Consequently, we would have had surpluses of something. What commodity do you wish to be in surplus?

So the pertinent question is, has concentration of surpluses in the form of wheat retarded economic growth more than it would have been retarded with surpluses of other commodities?

Another implicit assumption is that wheat programs have contributed very little, or nothing, to the technology of wheat production, processing, or marketing. The question does not lend itself to statistical proof. Many feel that wheat farmers have been stimulated to adopt new technology at a faster pace than they would have in the absence of wheat programs. If this contention is true, then wheat programs may have made a net contribution to economic growth. I do not say that this is true. All I want to point out is that those who argue that wheat programs have retarded economic growth should also take into account the claims, often by those same people in a different context, that wheat farmers have been stimulated to greater production by the same program.

If we consider the release of manpower from direct production of wheat to something else, then changes in the wheat industry have made a substantial contribution to economic growth. To illustrate, consider the changes in man-hours per unit of production of wheat and milk. The man-hours required for the production of 100 pounds of wheat today is slightly over 10 percent of the requirements in 1910-14, and for 100 pounds of milk, 35 percent.

Or consider the changes in average wheat yields per acre. After a plateau from 1911 to the mid-1930's, the trend turned rather dramatically upward. After World War II, when acreage was unrestricted, yields remained at a fairly even level until acreage allotments were proclaimed for the 1954 crop. With acreage allotments, yields again rose to an average nearly double the pre-World War II level. Some of the yield increase can be attributed to favorable weather, to retirement of poor soils, and to improved varieties. However, growers may have sought, learned about, and applied improved technology to offset acreage reduction with increased yields. If so, then wheat programs have aided economic growth.

On balance, the wheat industry seems to have made a satisfactory contribution to national economic growth during the period wheat programs have been in operation. I recognize that wheat growers in different regions would have fared differently under programs of a different nature.

#### FOREIGN TRADE

The wheat program was defined earlier as one in which the government took discriminatory commercial action. Export subsidies on wheat fall in this category, and wheat exports have been subsidized almost continuously since the Farm Board days. It probably is subjected to more restrictions, government controls, and political tampering than any other commodity.

Before examining the relationship between domestic wheat programs and foreign wheat programs, a review of the world wheat situation seems in order.

The population of the world is expected to be more than 6 billion by the year 2000. In 1950 it was about 2.5 billion, and by 1975 it is expected to be about 4 billion. These people will eat something. Wheat is the leading food in international trade.

According to an October 1961 world food budget estimate of USDA, the annual wheat equivalent needed to meet minimum nutritional standards is equal to the total U. S. carryover. This means that the surplus of wheat built up in the U. S. since 1950 could be used in one year by the hungry people of the world. The U. S. and world carryover next year will be reduced as world production for 1963 will be substantially below world demand.

Since World War II, U. S. exports have grown until they exceed domestic use. When agricultural policy was being debated in the late 1920's and early 1930's, wheat exports were a minor concern.

Very little thought was given to harmonizing domestic programs and export programs. Policy was concerned almost exclusively with domestic protection.

Domestic and export programs are almost in direct conflict in many respects. It appears that the higher the domestic price support the greater the export subsidy. But the relation is not a direct 1 to 1 ratio. In international competition, Argentina and Australia underprice the U. S. just enough to clear their supplies. Canada and the U. S. hold the umbrella. If we hold it high, our competition charges higher prices. Under these circumstances our subsidy remains essentially the same. So the conflict over domestic and export price levels, while present, is not quite as bad as it may seem.

The pressure to export wheat comes from the "push" of carry-over stocks as well as the "pull" of human hunger. In recent years, carryover of all wheat has been larger than annual use for domestic and export purposes. Hard red winter wheat is in the largest supply either relative to production or use, with the possible exception of durum.

I will give one illustration of how domestic and foreign policy conflicts have contributed to the imbalance. Other examples are easy to find. If you were to examine a map showing basic county price support levels, you would notice support rates are "backed down" to the local level from selected terminals. The approximate difference is the cost of handling and transport under the assumption that wheat would move in the U. S. generally from west to east. We cannot quarrel with this basis for county loan rates as far as the domestic movement is concerned. However, we also need to consider the export market. Let us examine how the county support rates affect the source for U. S. exports of hard red winter wheat.

Normally, we think of hard red winter as being produced in the high plains of Nebraska, Wyoming, Kansas, Colorado, Oklahoma, New Mexico, and Texas. But the area where hard red winter is grown is much greater than this. In many counties in Illinois, Missouri, and Iowa, over 90 percent of the wheat acreage is planted to hard red winter varieties. This is significant because of the wide range in quality of hard red winter wheat. Millers and cereal chemists generally acknowledge that hard red winter grown in the more humid areas is of lower use value than the same varieties grown in the high plains.

The export subsidy for the same grade of wheat under the federal standards is the same for wheat grown in the two locations. Export subsidies are based on federal grades. Federal grades do not

presently distinguish between values in use of hard winter wheat. Exporters will always fill contracts with the least cost wheat permissible. To ship wheat by barge from Adams County, Illinois to a Gulf export position costs about 22 cents per hundredweight less than the cheapest rail, truck, or barge combination from Jewell County, Kansas. Guess which wheat is exported first when the price support is about the same in Adams County, Illinois as Jewell County, Kansas for the same grade of hard winter wheat? If any remains, it will be in the high plains.

Now let us compare support levels and market prices at Kansas City and St. Louis for the 1962 crop year. In only two weeks of the entire 1962-63 market season were market prices for average quality wheat above government loan in Kansas City. In only two weeks was the support rate for No. 2 wheat higher than market prices at St. Louis. Wheat was priced at St. Louis so it would move into market channels. In Kansas City, prices favored storage.

With the present program and existing support price structure, the U. S. will continue to supply the foreign market with poorer quality hard red winter wheat. For the foreign aid program wheat is as useful as many other commodities. However, the result is a government managed export trade in wheat.

### **POLITICAL FEASIBILITY**

The wheat referendum vote of May 21 surprised many people. The rewards of a "yes" vote in the referendum were generally assumed to be so great, and the consequences of a "no" vote so severe that at least two-thirds of those voting were expected to vote "yes." After 12 favorable votes in wheat referendums, we finally found a program that was not politically feasible to wheat growers. Earlier, many programs were found to be politically infeasible to Congress, or to the administration.

In recent years only a handful of farmers have bothered to vote. But when the 1964 referendum was held, a total of 1.2 million voted, almost six times the number who voted on the 1963 crop. Interest in the last referendum was widespread.

For adoption of market control programs, a two-thirds majority has been required. In all previous elections this majority was achieved with a clear margin. However, the margin was close for the 1963 crop. The 1964 program did not carry by even a simple majority. To be sure, grumblings of dissatisfaction had increased with increased controls. However, when the act was passed for wheat harvested in 1964 and subsequent years, few believed growers

would choose the “no” alternative. Turkey growers’ rejection of controls was largely disregarded.

Only six states approved the control provisions of the 1964 program, and none of these states is of great commercial importance in the wheat industry.

One important question that still remains is: What is a politically feasible wheat program? I do not know!