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Congress of the United States
House of Representatives
Washington, D.C. 20515

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THE FACTS ABOUT THE PURCELL BILL, H. R. 12067

There has been much discussion, some heat, but very little light, concerning the so-called "strategic reserve" bill introduced by Congressman Graham Purcell. The Subcommittee on Livestock and Feed Grains has held extensive hearings; however, many of us on the committee continue to have serious reservations about the bill and its real purpose. Is it designed to improve farm income, or is it, in effect, a "political" reserve to aid this Administration politically in 1968? Even more importantly, what effect, if any, would the passage of this bill have upon farm prices?

Many views have been expressed concerning the bill, and the following, for the most part, reflects my general feeling:

(1) The bill in its revised form is completely stripped of any provisions which would be essential to the effective operation of a genuine strategic agricultural commodity reserve. There are no provisions for release of stocks in case of emergency. Food alone is reserved -- fiber is excluded. The reserve authority would terminate at the end of the 1969 marketing year. This bill must now be considered entirely on its merits as price-support legislation, because it is not a strategic reserve bill in any sense. Unfortunately, as price-support legislation, it is also sadly deficient.

(2) The release formula provisions in the bill form what could be termed an "inverted pyramid". That is, the lowest resale prices would come into effect when total available supply of a commodity would be at the highest level. The farmer needs protection from the government stocks the most when the supply is greatest. In other words, the greater the supply, the greater the need for price protection and insulating of stocks. This bill, however, would have just the opposite effect.

(3) Section 5 of the bill provides for the termination of both the purchasing authority and the release formula mechanism at the end of the 1969 crop marketing year. Prices at which the reserved commodities could be sold would revert to basic Commodity Credit Corporation resale prices, and one-third of the stocks of each of the commodities could be sold each year thereafter. This would throw great uncertainty into the market and would defeat the fundamental purpose of this type of legislation. This is an especially dangerous provision to be included in this bill.

This termination provision is directly contradictory to the concept of a strategic reserve which, in order to be of any value, must be a continuous, on-going program. Are we to assume that by the end of the 1969 crop year all the factors which make a strategic commodity reserve both necessary and desirable will no longer exist? Will all the problems of world food supply and international conflict be solved? Will there no longer be threat of famine, crop failure, nuclear war or the like? If this is to be the case in 1969, then there might be reason for terminating a strategic agricultural commodity reserve program at that time. Otherwise, I can see no validity in ending the reserve authority then, as the bill provides.

(4) Section 4 of the bill provides that CCC may sell any commodity in the reserve at the domestic market price "for the purpose of efficient management of the reserve stocks, including rotation thereof,...."

Much concern has been expressed about the wide latitude which the words "for the purpose of efficient management" would give CCC in its administration of the proposed reserve. These words, it would appear, could authorize sale of reserve stocks for almost any reason, at any time, and at any place within the United States, without regard to the resale formula provisions listed in Section 3 of the bill.

The requirements of Section 4 do not include restrictions as to grade, quality, quantity, or geographical location. Although "prompt purchase of a substantially equivalent quantity of such commodity at domestic market price" is necessary, it would appear that the offsetting purchase could be made in an entirely different area, perhaps thousands of miles away from where the sales were made. If this is indeed the case, Section 4 would seem to be an open invitation to market manipulation.

(5) What assurance do we have at the present time that sufficient funds will be available to finance this program? It would indeed be an idle gesture to pass a bill and then not have it financed. It is my feeling that the Administration should be placed on record as to how much this bill would cost and whether sufficient funds would be allocated to effectively carry out its provisions.

Undersecretary John Schnittker, in response to a question I posed, indicated that if the bill passed, the Department would buy only about 25 million bushels of wheat this year. I believe everyone will agree this would have little, if any, impact on the market price. We are still making an effort to find out what the bill would cost; however, Administration officials have been reluctant to provide this information.

(6) I am particularly concerned over the resale formula for wheat contained in the bill. The Department of Agriculture estimates wheat carryover in the coming year at more than 500 million bushels. Should this bill be enacted, wheat in the CCC reserve would be available for sale at 120 percent of the support loan rate, plus carrying charges. This allows only a five percent spread between the purchase price and the selling price, which, in my opinion, is not sufficient protection against the possibility of market disruption and price manipulation.

Testimony presented in the earlier hearings on this bill indicated that even a twenty percent spread is not considered adequate by many producers and people in the trade.

The situation created by this legislation for feed grains and soybeans would be distressingly similar.

(7) In addition to my concern over the basic language and provisions of this bill, it is very important that we seriously consider the background, the climate, the atmosphere in which we would be presenting such a bill to the House of Representatives. Pressure is mounting to cut Federal spending wherever possible and practical. The agricultural appropriations bill has been pared to a level below the President's budget recommendation as part of this strong general economy move. Rescission bills have been promised. This Congress -- particularly the House -- is determined to cut spending, as indicated in the action taken by the House on October 18. Many of us are convinced that we can't have it both ways -- that is, increased spending and no new taxes.

At the appropriate time, I plan to offer a substitute proposal which, in my opinion, would boost farm income without the necessity -- in most cases -- of new legislation. Let me again state that I am convinced this Congress is not about to pass additional spending legislation. My substitute would be in the form of a Resolution asking the Secretary of Agriculture to take certain administrative actions to beef up prices. While the text of the Resolution is not in final form, preliminary wording is as follows:

The Subcommittee herewith requests the Secretary of Agriculture to take the following administrative actions:

(1) Provide diversion payments to both wheat and feed grain producers participating in the 1968 program.

(2) Establish the CCC release price on unrestricted domestic sales of feed grains and soybeans at 100 percent of the parity price plus carrying charges and wheat at 100 percent of parity minus the value of domestic marketing certificates plus carrying charges.

(3) Announce immediately 1967 reseal programs for feed grains and wheat.

(4) Increase the loan level on corn by 10 cents a bushel to $1.15 with comparable increases on other feed grains.

Additional Recommendations

In addition to the above, the Subcommittee on Livestock and Feed Grains should recommend enactment of legislation to:

(1) Permit cooperating wheat farmers to receive one-half of their program payments at sign-up time as is the case with cotton and feed grain producers.

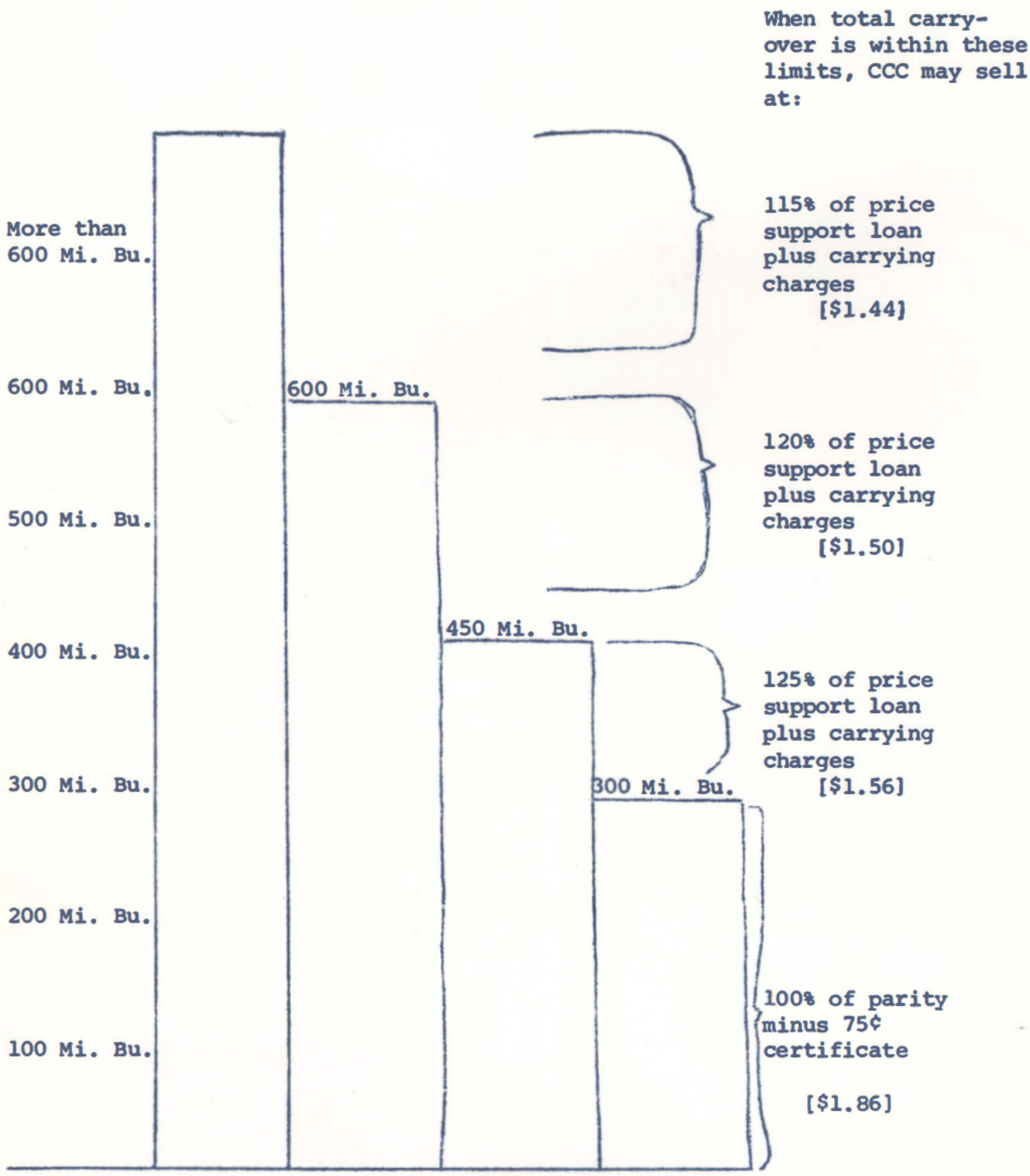
(2) Increase the 1968 loan level on wheat to $1.40 per bushel while retaining the present 75-cent certificate collection on wheat used for domestic food purposes.

SUMMARY

I would appreciate your reviewing this material carefully and giving me the benefit of your views. It is possible final consideration of the Purcell proposal will come on October 24, 25 or 26.

H. R. 12067 (revised)
Effect of CCC release formula on wheat:

TOTAL CARRYOVER



[Carrying charges = 3¢ initial handling - August
1 1/2¢ storage per month - September on]