BOB DOLE
1ST DISTRICT, KANSAS

243 CANNON HOUSE OFFICE BUILDING
AREA CODE 202
225-2715

COMMITTEES:
AGRICULTURE
GOVERNMENT OPERATIONS

DISTRICT OFFICE:
210 FEDERAL BUILDING
HUTCHINSON, KANSAS 67501

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

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REMARKS OF CONGRESSMAN BOB DOLE
KANSAS BANKERS AGRICULTURAL SCHOOL
MANHATTAN, KANSAS
FEBRUARY 18, 1966

THE SIGNIFICANCE OF THE AGRICULTURAL ACT OF 1965

I am happy to have this opportunity to talk with the bankers of this great agricultural State of Kansas, about the significance of the Food and Agriculture Act of 1965. As you well know, cash receipts from farm marketings in Kansas have exceede a billion dollars a year for the past eight years. Kansas stands first in the Nation in the sales of wheat, third in sales of sorghum grain, and fourth in sales of cattle and calves.

Gross farm income, including government payments and the value of home consumption, has approximated $1.5 billion a year for the past five years. Kansas farmers now spend over $1 billion each year in the production of their crops and livestock. Farming is indeed big business in Kansas.

And the banks and bankers that service Kansas agriculture play a vital role in the economy of the State and of the United States.

The significance of the Food and Agriculture Act of 1965 in maintaining farm income in Kansas, can best be understood if the earlier farm legislation in the post-war years is reviewed briefly.

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Kansas Bankers Assn.
Agriculture School
Manhattan, Kansas
February 25, 1966

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You will remember that during World War II legislation was adopted that provided for price supports for a few years after the end of the war. This legislation was intended to make sure that the experience following World War I would not be repeated. Within 12 months after the close of World War I, farm prices dropped sharply. Actually, after the close of World War II, world food shortages held prices up for some time, but the wartime price supports were a precautionary measure to be used as needed.

During those early postwar years, there was much discussion to the effect that if a high level of business activity and employment were maintained, farm price support programs would not be needed. Under these conditions it was thought that farmers could adjust their production in the light of market prices and marginal farmers would shift into nonfarm industries.

People holding this point of view remembered that the farm programs of the 1930's were undertaken to improve farm family income at a time of widespread unemployment. The entire country was in the throes of the great depression when these programs were started. If a postwar depression could be avoided, it should be possible to terminate the programs.

The debate as to how much was needed in the way of government programs continued through the 1950's. After much controversy, Congress authorized a lowering of wartime price supports, within limits, in 1954. Surpluses had already accumulated at that time and after months of discussions Congress also passed the Agricultural Trade Development and Assistance Act, which has since become generally known as Public Law 480. Under it surplus agricultural products are made available to needy people in other countries under special governmental agreements.

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But the surplus problem was not solved. Crop production continued to expand more rapidly than commercial markets in the mid-1950's, and the Commodity Credit Corporation accumulated increased stocks, especially of grains and cotton. Emergency short-term soil bank programs were undertaken in the belief that if several million base acres of the surplus crops could be diverted to conservation uses for a few years commercial markets would expand sufficiently to again fully utilize the full productive capacity of American farms.

In spite of the expansion of exports under Public Law 480, the reduction in cropland harvested, and lower market prices, production continued to expand more rapidly than utilization. Surplus stocks owned by the Commodity Credit Corporation increased. Net income dropped from about $3600 per farm in Kansas in 1951-52, to $1700 in 1955-56 and then recovered to $3200 in 1957-59.

President Kennedy in his 1960 election campaign, promised, if elected, he would raise farm prices, reduce government stocks, and reduce the government cost of farm programs. Soon after assuming office he proposed another emergency program--a voluntary feed grains program, designed to divert several million acres from the production of feed grains to conservation uses.

Producers were offered price supports on the grains produced and acreage diversion payments, if they diverted a minimum of 20 percent of their base acreage. The program was voluntary in that there was not to be any penalty assessed if a producer failed to divert 20 percent of his base acreage. As it was operated, however, the Commodity Credit Corporation sold stocks, forcing the market price below the support level, thus blackjacking the noncooperators.

The first long-term farm legislation proposed by the Kennedy Administration involved giving Secretary Freeman broad grants of power never before delegated to the executive branch of government by the Agriculture Committees of the Congress. Congress refused to pass such legislation and extended the voluntary feed grain program for a second year.

The following year, 1962, it was ~~the Kennedy Administration~~ proposed to extend~~ing~~ mandatory marketing quotas to feed grains and related measures which would have increased production controls on the other price-supported crops. These proposals failed to win a majority in the House of Representatives by a very narrow margin. Again the voluntary feed grain program was extended, this time for a two-year period. A two-price system was authorized for wheat and small changes were made in other commodity programs.

All of you must remember the May 1963 referendum on marketing quotas for wheat, in connection with the new two-price system that had been authorized by Congress. It was a shock to the ~~Kennedy~~ Administration when wheat producers voted down the proposed mandatory wheat marketing quotas for 1964.

Confronted with the fact that wheat producers would no longer tolerate mandatory controls administered from Washington, the

Administration turned to a voluntary program for wheat patterned on the popular feed grain experience.

Since 1960 farm income has been increased and CCC stocks of wheat and feed grains have been reduced. But large acreages of cropland have been idled and the cost of the farm programs to the government has gone up sharply. In Kansas, for example, government payments to farmers increased from $28 million in 1959-60 to about $200 million in 1965. Government payments to United States farmers reached $2.2 billion in 1964 and $2.4 billion in 1965.

Agricultural economists in our neighboring State of Oklahoma have made a detailed analysis of trends in agricultural production and programs for the past decade. They conclude that during these years agriculture has maintained a capacity to produce 5 to 10 percent more products than could be moved through commercial markets at stable or even moderately lower prices.

This continuing excess capacity has been caused by the rapid adoption of improved technology on the farm, resulting in record increases in acre yields of our major crops. Three factors stand out as being mainly responsible for the year-to-year increases in yields--improved varieties of seeds, use of increased quantities of fertilizer, and improved farm equipment which permits more timely operations.

This excess productive capacity has been kept from flooding commercial markets by P. L. 480 exports, by increasing government stocks and by the series of emergency acreage diversion programs enacted since 1954.

One other bit of history is relevant as background in considering the 1965 farm legislation. As most of you know, the United States is the only country in the world where farmers receive payments from their government for idling productive cropland. While we in this country have been limiting our production and following a responsible, non-aggressive policy in subsidizing the commercial exports of cotton and wheat, other governments have encouraged their farmers to expand production and exports. We are placed at a disadvantage in the world market.

When the 1965 legislation was under consideration, Members of Congress made it clear to Secretary Freeman that they felt he had not always been as aggressive as he should have been in his export policies. Largely because of this experience, and because cotton stocks have been accumulated in the last two years under the current program, the 1965 legislation provides that the government loan rate on cotton in the future shall be at 90 percent of the estimated world price level.

With this background of experience, it seemed best to continue the voluntary feed grains and wheat programs with few changes and to change drastically the cotton program to make it more like the feed grains and wheat programs. The Food and Agriculture Act of 1965 as approved by the Congress and signed by the President, is far from perfect. In particular it continues to allow the administration to sell Commodity Credit Corporation stocks at little more than the loan

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value, thereby holding down market prices. A number of representatives from the grain-producing areas joined me in trying to get this section of the bill amended, but to no avail.

In spite of several shortcomings, however, the 1965 Food and Agriculture Act does represent ~~real~~ some progress in farm legislation. It extends most price support and adjustment programs for a four-year period with relatively few changes, except for cotton. Government price-supporting loans are authorized at or near world price levels, rather than at higher levels as in earlier years. Government payments are conditioned on the voluntary diversion of a farm's base acreage of surplus crops to conservation or nonfarm uses. Only tobacco and rice continue under strict controls.

The major advantages of the 1965 legislation over earlier acts are as follows:

1. It recognizes excess capacity as a continuing problem and gives the Secretary of Agriculture authority to deal with it on a flexible basis for a four-year period.
2. Government loans are to be set at or near world levels, not at higher levels as in earlier years, sharply limiting the need for export subsidies to keep the prices of American farm products competitive in world markets.
3. Most programs are voluntary and producers may produce as much as they wish at prevailing market or world prices--those who overplant their allotments are ineligible for government loans and payments; no other penalty is involved.

4. The Secretary of Agriculture is directed to reduce stocks, where excessive, to desirable reserve levels--government expenditures are to be used primarily for payments to farmers to divert base acreages or for the purchase and distribution of products outside commercial markets--thus increasing farm income by more than twice the amount of the government expenditure.

5. A long-term cropland adjustment program is authorized. The Secretary of Agriculture may enter into 5-to 10-year contracts with farmers for the retirement of perhaps 40 million acres of cropland. Farmers about to retire and those on cropland where production costs are highest because of weather hazards are expected to find this program attractive.

At the time this legislation was under consideration by the Congress, the Administration claimed that it would:

Reduce farm program costs,

Assure continuing abundant production,

Improve the income of family farmers, and

Reduce government stocks.

Frankly, I do believe it will be possible to achieve all of these goals under the 1965 legislation. We were successful in getting provisions written into the legislation assuring wheat producers full parity or about $2.57 per bushel for the wheat used for domestic food. This should result in slightly higher incomes to wheat producers.

Cotton producers also were successful in getting provisions in their section of the bill which effectively protect their income in future years. I am concerned, however, that in both cases, as compared with recent years, government costs of both the wheat and cotton programs will increase under the 1965 Act.

Only minor changes were made in the legislative provisions of the feed grains program. Feed grain program costs had already reached a new high in 1965 with payments to farmers in excess of $1 billion. With over 30 million acres diverted under the program, the acreage of feed grains harvested was the smallest since the 1880's. Nevertheless, record high yields resulted in a new record/being established in 1965 in feed grain production.

Because of the high level of production, although exports of feed grains continue to boom, there will not be any further liquidation of excess stocks this year. Except for the very high level of exports, including large grain sorghum shipments to India, carry-over supplies would have increased.

The Administration, in the light of this experience, has attempted to reduce the costs of the 1966 feed grains program. In a typical Kansas county, where the government loan level for grain sorghum was 90 cents a bushel last year, it is 83 cents this year. Although the price support payments have been increased from 20 to 30 cents a bushel, they are to be applicable/to only 50 percent of the farmer's projected production this year. Other changes in the 1966 feed grains program include a shift from normal yields to projected yields for each farm.

When one takes into account the increase in yields projected, the net effect of the changes made in the 1966 feed grains program for Kansas grain sorghum producers, is to reduce the economic incentive (payments) for participating in the program by 10 to 15 percent in addition to lowering the support level seven cents a bushel.

At the present time, market prices are above the government loan level and many who have been cooperating in the program in recent years report that they plan to stay out and increase their planting next year. This is their privilege, but as their financial counselors, you recognize the inherent risks in the current situation.

The government, in the interests of reducing its costs, has lowered the loan level and the incentives for participation in the program. If participation drops, as now seems probable, and yields continue at recent levels, supplies will exceed market outlets and market prices will drop sharply.

I have called your attention to the feed grain situation for I believe feed grain producers are in a much different position than wheat growers. Because of the failure of the crops in India and in several other countries, we are receiving requests for increased shipments of wheat under Public Law 480.

Our wheat stocks are no longer of surplus proportions. We are looking forward to an increase in wheat acreage allotments next year to avoid reducing stocks below desirable reserve levels. The 1965 legislation permits this flexibility.

Since the increased production will not be sold in commercial markets, however, but will be used to increase our international food aid, the increase in wheat production will be accompanied by further increases in government costs.

I was greatly encouraged by the President's message on "Food for Freedom and War on Hunger", which he sent to the Congress on February 10. I think we can and we should, do more by way of helping those nations who are making a major effort to solve their food problems.

I am apprehensive, however, that a tight budgetary situation will prevent us from doing much more than meeting the famine needs, such as we are now doing in India. I am not at all confident that the 1965 farm legislation assures Kansas feed grain producers that their incomes will be maintained at recent levels if crop yields continue to increase.

Related to this is the fact that land values and farm debts have been rising rapidly in recent years. I note that the national farm mortgage debt has increased by almost two-thirds in the past five years. Farmers' short-term debt has also increased by one-half. Kansas farmers have probably increased their debts in about the same proportion. I hope they do not increase them further this year on the mistaken assumption that the new four-year farm legislation assures higher farm incomes in the next few years.