NOTES

A COMMENT ON THE HARRIS ESTIMATION OF THE TREASURY COST OF EISENHOWER'S WHEAT PROGRAM

W. E. HAMILTON
American Farm Bureau Federation

The November, 1959 Journal note entitled “Eisenhower’s Wheat Program: An Estimation of the Treasury Cost for 1959” by Curtis C. Harris, Jr., is misleading insofar as it purports to be an analysis of what the President actually recommended.

Referring to President Eisenhower’s 1959 recommendations on wheat, Harris said:

The means of getting a “workable wheat program” he went on to say, is “to reduce the incentive for excess wheat production.” His solution to the surplus problem was presented in his January message. He proposed the elimination of all acreage and marketing controls, and guaranteed prices at 90 per cent of the average market price for the three calendar years preceding the crop year in question.

Official records make it clear that the Administration did not contemplate such a level of price support in combination with the elimination of controls without transitional provisions designed to reduce the cost of the wheat program.

The President’s proposals were first outlined in a special message to Congress in January, 1959. The pertinent section of this message, which covered other crops in addition to wheat, reads as follows:

I recommend that prices for those commodities subject to mandatory supports be related to a percentage of the average market price during the immediately preceding years. The appropriate percentage of the average market price should be discretionary with the Secretary of Agriculture at a level not less than 75 and not more than 90 per cent of such average in accordance with the general guidelines set forth in the law. Growers of corn, our most valuable crop, have already chosen, by referendum vote, program changes which include supports based on such an average of market prices.

If, despite the onrush of science in agriculture, resulting in dramatic increases in yields per acre, the Congress still prefers to relate price supports to existing standards, the Secretary should be given discretion to establish the level in accordance with the guidelines now fixed by law for all commodities except those for which supports presently are mandatory.

Either of these changes would be constructive. The effect of either would be to reconcile the farm program with the facts of modern agriculture, to reduce the incentive for unrealistic production, to move in the direction of easing

1 J. Farm Econ., 41:815.
production controls, to permit the growth of commercial markets and to cut the cost of Federal programs. (Emphasis added.)

Further details of the President’s proposals for wheat were spelled out by Secretary Benson in appearances before Congressional Committees. In addition, specific suggestions for changes in existing legislation were submitted to the Senate Committee on Agriculture and Forestry by letter and subsequently made public by the Committee.

In keeping with the President’s original message, this letter transmitted the language needed to effectuate a series of alternative proposals. These alternatives were grouped into two separate approaches, labeled “Relaxation of Controls” and “Control Route.” Alternative (A) under the “Relaxation of Controls” approach—the Administration’s first choice—called for discretionary authority (1) to increase, rather than abolish, allotments in the 3-year period 1960-62, and (2) to establish price supports for the 1960-62 period at “. . . not less than 75 percent or more than 90 percent of the average price received by farmers during the 3 preceding marketing years.”

Alternative (A) under the “Control Route” approach provided for price supports at 90 per cent of the three-year market average price, but in combination with “basic changes in the present program” which would have reduced the national acreage allotment, eliminated marketing quota exemptions, and otherwise tightened existing controls.

The extent to which the Administration would have used the discretionary authority requested under its preferred approach is, of course, debatable. Nevertheless, the concern frequently expressed by President Eisenhower and Secretary Benson with respect to the cost of the wheat program, and their known desire to relax controls, strongly suggest that the full authority to reduce wheat supports to 75 per cent of the 3-year average would have been used, at least for the first year of the new program. The difference between 75 and 90 per cent of the 3-year average is significant. This is so not only because of possible effects on production, CCC acquisition costs and export subsidy rates; but also because it is to be expected that the demand for wheat would become considerably more elastic if support prices were to be lowered sufficiently to permit wheat to compete effectively in the domestic feed market.

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2 Support Prices for Agricultural Commodities—Message from the President (H. Doc. No. 59), Congressional Record, January 29, 1959, pages 1189-1190.

3 Wheat Price Supports and Acreage Allotments, letter from the Department of Agriculture, transmitting drafts of the legislative changes, together with explanations thereof, that would be necessary to put into effect alternative proposals for wheat in accordance with the President’s Agriculture Message and the testimony of the Secretary, February 16 and 17, 1959, to the Committee on Agriculture and Forestry, United States Senate, March 12, 1959, printed for the use of the Committee on Agriculture and Forestry.
The Harris note could be dismissed as an exercise in methodology, except for the author's statement that:

The purpose of this paper is to estimate the Treasury cost of Eisenhower's wheat program for 1959 and compare it with an estimate of the Treasury cost that would be incurred if the present wheat program were to remain in effect.

As Harris has indicated, a program that would abolish acreage allotments and marketing quotas without materially reducing price supports for wheat would be expensive for the Treasury. The results of his analysis would have been considerably different if he had assumed that the President's program may have contemplated reducing price supports sufficiently to permit wheat to compete effectively in the domestic feed market within 1 to 3 years.

THE EISENHOWER WHEAT PROGRAM—A COMMENT

TED RICE
Continental Grain Company

This writer feels that the Note in this Journal, “Eisenhower’s Wheat Program: An Estimation of the Treasury Cost for 1959,” needs a comment for two reasons:

1. The methodology of estimating acreage to be planted under assumed conditions lacks precision.
2. The analysis makes important omissions in calculating costs to the Treasury.

Methodology

The author of the Note states, “During the six years [1947, 1948, 1949, 1951, 1952, 1953] in which there were no acreage controls, the average annual acreage seeded [to wheat] was 79 million, and the average annual support price was $2.06 per bushel. The same production response is expected to exist for 1959, i.e., at $2.06 per bushel it is assumed that farmers would seed 79 million acres to wheat.” The author then applies a mathematical formula based on a 1909-1932 time series to show the acreage if the price support were lowered to $1.68. Besides the use of an antiquated time series, which the author recognizes as undesirable, there are at least 4 additional objections to using it.

a. The assumption is that changes in wheat acreage are entirely a func-