

AUTHOR'S NOTE

On August 13 and 14, 1974, I participated in the Midwest Outlook Conference at Ames, Iowa. It was a very uncertain and volatile time. We were in the midst of a severe drought which threatened shortages. The 1972–74 period was one in which agriculture moved from surplus to shortage and prices experienced a quantum leap from a level dominated by government programs and price supports to a new and unexplored ground. The political air was filled with talk of price controls and export restrictions.

Upon arrival at my office on the morning of August 15, I found a telephone request from the day before to go to Washington on the 15th to attend a hearing before the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices. My assignment was to listen and to critique outlook statements of the USDA. A fortunate plane service made it possible.

Senator Hubert Humphrey was present part of the time, and much of the talk of protecting consumers from shortage and exorbitant prices had come from his office. A couple of staff people and I had a conversation in a side room with the senator. He was talkative, and we heard about his youth running a drugstore, the career of his son, his teaching of moral values, etc. But at one point I was able to get a word in edgewise and said, "Senator, the planting of corn and soybean crops was late in Minnesota, and if there is an early frost, farmers will need high prices to survive." He looked directly at me and said, "That's right, isn't it?" I returned home knowing there would be no price ceilings on corn and soybeans. Such is politics, and it says something about the relative importance of politicians and economists.

CURRENT SUPPLY-DEMAND SITUATION FOR FOOD AND FIBER

HEARING BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE COMMITTEE ON
AGRICULTURE AND FORESTRY UNITED STATES SENATE

August 15, 1974

CHAPTER 34

Statement of Dr. Thomas A. Hieronymus, professor of agricultural economics,
University of Illinois, Champaign, Illinois

DR. HIERONYMUS. I am T. A. Hieronymus, professor of agricultural economics at the
University of Illinois.

SENATOR HUDDLESTON. Do you have a statement, Dr. Hieronymus?

DR. HIERONYMUS. No, sir; I do not. I came in late last night and found on my desk
at 7 a.m. this morning the request that I come down here. I know the general sub-
ject matter.

I have just come back from two days at a Midwest Outlook Conference reviewing
the total price outlook.

SENATOR HUDDLESTON. Could I suggest that you give us a summary of that review,
describing what your studies indicate, and further, if you would care to comment
on any of the testimony that you have heard so far today, feel free to do that. Then
we will proceed with whatever questions we have.

DR. HIERONYMUS. My responsibilities at the Outlook Conference were to deal
with the outlook for wheat, feed grains, and, to some extent, soybeans.

In the matter of wheat, the production plus the carryout, minus the domestic
requirements for wheat, leave an exportable surplus of something over a billion
bushels. This is an amount that is a little bit less than we have exported the past
two years. It is a very great deal more than we have been able to export in the pre-
ceding years. From the 1972-73 crop year we exported a tremendous amount of
wheat. In this the Russian wheat purchase was of major importance. The very
strong export demand this past year was a result of increasing world demand and
crop problems in various places, and, I think, some restocking.

There are a lot of uncertainties in world wheat crops remaining. The Canadian
wheat crop is late. No one knows how well the Russian wheat crop is turning
out. The weather in the wheat areas of China has not been very good.

SENATOR HUDDLESTON. Are your figures substantially close to those given by the
Department?

DR. HIERONYMUS. I think so; yes. I work with the same numbers; it is a balance sheet problem, and it comes out very much the same.

So I think that we face a good export demand for wheat. I think that the price of wheat will not stay as high relative to feed grains as it has been in the last couple of years. I think we are quite comfortable with wheat unless there are severe crop problems from this time forward, particularly an early frost in Canada.

In soybeans, I worked this out to a soybean crush of about 795 million bushels, and an export of about 490 million bushels. I am using a little bit larger carryover than the USDA because I do not really believe we will get it down below the 60 million again of a year ago. This goes for oil and meal. On the meal side of it, I think we are going to be quite comfortable. We can export 5 1/2 million tons of meal, which is about the same as this year. I think we face a little bit weaker demand. The Peruvian fishmeal production is up. The livestock industries in Europe are in trouble and will not be as good customers. It will leave us with, I should say, about 13.3 million tons to consume domestically. This is a quite liberal supply.

The trouble area is feed grains. Here we face a shortfall in the amount of feed grains that will be available. This is partly because of the restricted corn crop and partly because of the shortfall in grain sorghums, which was rather substantial.

To me, it looks like a total production of 174.7 million tons. If I take off of that a minimum carryout, which I think is 16.6, a normal of food, seed, and industry use, and exports that I currently estimate at 30.8, it leaves a feed availability of 129 million tons. To put that in context, this past year, or the current year, the year ending September 30, we are apparently using about 159 million tons. So there is a substantial decrease in feed grain availability—19 percent.

In 1972–73 we used 156 million tons. So compared to the past two years it is a substantial cut in feed grain availability in the United States. This is assuming an export of corn of 850 million bushels.

In 1971–72 we used 149 million tons. These were the big years. In 1970–71 we used 138.9. So the shortfall this year was not large compared to 1970–71. It is very much in line with the availability for years prior to 1969–70. On the basis of animal numbers, the bushels of corn-per-animal are substantially smaller than the last three years but bigger than we ever used in any year preceding that. So it is sort of like someone asking a man how his wife was, and he says, compared to what? Now, compared to recently, it is a tight fit on feed grains.

How do we cope? The first line, you cut down the rate of concentrate feeding to cattle. This means putting cattle in the feedyard at heavier weights and keeping them a shorted period of time and putting less finish on them. What this really will

do to the total supply of beef is not clear, because cattle numbers have been increasing very rapidly. They are troublesomely high. Feeder cattle prices are low. We may consume a lot of grass-fed cattle. If we run into forage problems, we will liquidate some cattle numbers and raise the consumption of beef.

The second way to cope is in cutting back on hog production. This will take time. Like everyone else, I guess, I will watch the September pig crop estimate very closely. The general consensus at Ames yesterday was that the spring pig crop, May 1974–75, would be down about 10 percent. I think it might be down somewhat more than that. So it will cut back on pork availability.

I do not think we will cut back broiler production as much as we do cattle and hogs, because broilers are extraordinarily efficient converters to feed. I think we will probably use scarce feed there.

I think what this adds up to . . .

SENATOR HUDDLESTON. Would that be true with eggs, too?

DR. HIERONYMUS. Yes, it is, because, you see, eggs—we have faced a declining demand for eggs for years, declining per-capita consumption because people prefer other things. But when it gets right down to trying to get an adequate amount of proper food at the lowest possible cost, eggs are a very good way to do it. I think the market will behave in a way that will make this possible.

What it gets down to as a matter of consequence, I think, is that we probably face some reductions in per-capita consumption of meat. It may go as low as the level of 1968 or 1969, which were at that time of record size. It will be very much above the 10 years ago per-capita meat consumption. So I really just cannot get greatly alarmed about the nutritional consequences of shortfalls in feed grain supplies. It may be helpful to the cattle industry. We have got very big numbers, and any time we top out cattle prices there is going to be trouble. So if we have to slaughter some light cattle, this will solve some problems.

SENATOR HUDDLESTON. What is the net result to the feeder if he sells light animals for slaughter? He is selling on a per-pound basis. There are going to be less pounds even if the price is up a little bit per pound. Is he still going to receive essentially the same return?

DR. HIERONYMUS. No, he will take a lesser return.

SENATOR HUDDLESTON. He will feed less, of course.

DR. HIERONYMUS. Yes. The feeder cattle in Kentucky have been lately selling much cheaper than earlier. There simply is not a demand for them to go into feedyards because feed costs are high. It is necessary to get feed costs high enough to squeeze

the feedyard operators down enough so that they will restrict feed use to the available supply. Somehow we have got to discipline the use of concentrates down to the available supply. This puts the squeeze on feeders. We have got to force some hog producers to market more sows and breed fewer sows. They get stubborn about this and let their margins get down pretty low.

SENATOR HUDDLESTON. What does that do to the demand and the available supply after they have reached the point where they are feeding fewer and breeding fewer? Are they going to create a shortage?

DR. HIERONYMUS. Of meat?

SENATOR HUDDLESTON. Of meat.

DR. HIERONYMUS. A shortage compared to 1972? Yes. I do not really think a shortage compared to 1973. It will be abundance compared to any year prior to 1969. Now, I guess the biggest unknown besides what the next crop report is going to show is how consumers will react. Consumers have been over a rocky road in the past two years. For the first time in 20 years we did cut back in 1973 on the availability of meat per capita. They fought this with great vigor, they chased the—there was no way that they could consume as much because there was not as much—they chased this with great vigor and drove prices up. We got into consumer boycotts in the spring of 1973. Then we kicked the whole thing into a welter of confusion with an assortment of price controls. So consumers lost their good sense of how to spend their money, and went after things before they ran out. They filled up their freezers. The cattlemen held the cattle back and got them too heavy, and the hog growers held hogs back until they got too heavy. Then the whole thing hit the market, and crashing down came prices.

I do not know how consumers will react to the next go-around. They can take their reductions gracefully, and get by at moderate prices, or they can aggressively pursue a restricted supply and bid prices up. They have got to make some choices.

In some exasperation last October, at a question-and-answer session at a meeting, I said I really thought consumers might behave with reasonable good sense, that when [a housewife] went down the meat counter and found that a T-bone steak cost as much as a bottle of Scotch—she would make a wise choice—pass up the meat and buy the Scotch. The fact is that we do not need to consume so much meat.

SENATOR HUDDLESTON. Do they get the same amount of protein that way?

DR. HIERONYMUS. I do not think people really buy meat for its protein. Hamburger will solve the problem.

SENATOR HUDDLESTON. Do you characterize the Department's statement today as optimistic, pessimistic, or realistic?

DR. HIERONYMUS. I might say with fingers crossed that the release on September 11 stands up for one thing. Reading between the lines in it, I think they obviously expect higher agricultural prices and higher food prices than they expected before adverse weather came into being. I think that this can be coped with by the market rather simply.

SENATOR HUDDLESTON. We have had suggestions that corn may go to \$4 a bushel. Do you have any comments?

DR. HIERONYMUS. Before I went out to Ames—I had to do this before the crop estimates came out—I was using 5.1 billion bushels of corn, and I was kicking around the \$4 a bushel as a kind of a workable price of corn. It comes out, to put it to a feed cost basis, and this comes out \$44.50 for hogs, and that is about an 82-cent pork loin. I think above 82 cents the consumers balk. Four dollars is a good ball-park figure, yes.

SENATOR HUDDLESTON. I think that is all the questions I have.

DR. HIERONYMUS. If I might, in hearing what I have since I have been down here, the crux of this matter may well relate to export restrictions. I think there should be no export restrictions. More important, I think it should be made clear at this time so that markets can function without this additional kind of uncertainty. I would list four points.

First, I think that it is in the best interests of U.S. foreign policy to maintain free international trade.

Second, I think it is important to U.S. agriculture that long-run exports be increased; we need export markets badly. Any reductions at this time will hurt us in the long run.

Third, I think farmers have a right of access to the highest profit markets that are available. If these are exports, then they should have them. They need higher prices this year to compensate for lower yields.

Finally, I think that reductions in feed grain use are not nutritionally serious. They will cut meat consumption moderately, but it will remain quite high.

SENATOR HUDDLESTON. Thank you very much. I appreciate that fine presentation.