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## Federal Reserve Bank of Chicago - -

December 26, 1958

Wheat was described recently as the "weakest link" in U.S. agriculture. The reason is obvious. The amount of surplus in wheat has risen to a new record high even though acreage was restricted by the allotment program and the soil bank, and strenuous efforts have been made to boost exports.

The prospect for the year ending July 1, 1959, may be summarized as follows:

	million bushels
Food uses .....	484
Feed and seed .....	126
Total domestic use .....	610
Exports .....	430
Total disappearance .....	1,040
Total supply available .....	2,340
Estimated "surplus," or carry-over, prior to harvest of 1959 crop .....	1,300

The supply available for use during the year beginning July 1, 1958 and ending July 1, 1959 consists of the 1958 crop, estimated at 1,449 million bushels, plus a stock of 881 million bushels at the beginning of the period and imports of possibly 10 million bushels, largely low quality wheat for feed.

Domestic use for food has been very stable in recent years. Per capita consumption of wheat products has declined as population increased. Historical evidence for the U.S., as well as some other countries, indicates that consumption of wheat tends to decline as personal income rises and larger amounts of other "more expensive" foods are included in the diet.

The amount of wheat used for seed is determined, of course, by the acreage planted. No large increase in seed requirements is indicated. The amount used as seed during the past 5 years has averaged 65 million bushels annually.

The amount used as livestock feed has averaged about 54 million bushels annually during the past 5 years. This could be increased substantially if feed were priced competitively with corn and other feed grains, although, with large stocks of feed grains available, this does not appear to provide any great opportunity for increasing domestic utilization in the near future.

Exports of wheat are subsidized heavily, since domestic prices are supported above world market prices. In the past 3 years, wheat exported under the International Wheat Agreement has received a Government subsidy of about 75 cents a bushel, for an annual cost of about \$94 million. About one third of total U.S. wheat exported during the past 3 years has been under the IWA program. The remaining two thirds has been under other Government programs. These programs cover the waterfront, ranging from outright donations for relief purposes to the barter of wheat for other commodities. The largest of these programs consists of "sales" for foreign



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currencies. Since a large part of the foreign currency obtained in exchange for U.S. wheat is loaned to the foreign governments (and some is donated), it is not possible to determine the amount of real export subsidy in such "sales." However, it is relatively large. From mid-1954 to mid-1958, foreign currencies having an equivalent value of about 1 billion dollars were received in payment for 616 million bushels of wheat exports which required U.S. Government outlays of nearly 1.9 billion dollars.

Can exports be expanded? Answers differ. Many believe that additional exports can be achieved only at excessive costs to the U.S. Treasury and additional nonmonetary costs in terms of relations with friendly nations which also export wheat. Others assert that an export potential exists so long as there are any undernourished people anywhere. This latter assumes a willingness on the part of the U.S. to continue and expand payments to farmers and others to produce, process and distribute wheat to consumers outside the U.S.

A solution to the wheat situation would appear to rest heavily on adjustment of output and possibly on broadening the market by pricing wheat competitively with other grains. About 55 million acres of wheat probably will be harvested in 1959. If a yield equal to the 1954-58 average of 21 bushels is realized, the crop would total about 1,150 million bushels. This would exceed estimated domestic requirements and exports and make a further addition of possibly 150 million bushels to stocks. Even if no wheat was produced in 1959, the estimated supply available July 1, 1959 would provide for domestic consumption and exports and leave a carry-over of about 300 million bushels on July 1, 1960.

An advisory commission to the Secretary of Agriculture is reported to have recommended a multipronged attack including a move away from the parity concept and toward supports based on average market prices in recent years, a cut in acreage allotments, stiffer penalties for overplanting and elimination of the exemption which allows any farmer to plant up to 15 acres of wheat without penalty.

Whether these proposals will be adopted and whether they would bring the wheat situation into balance remains to be seen. But that vigorous action is called for can hardly be denied. To continue adding indefinitely to an already burdensome stock clearly is a waste of valuable resources.

Research Department