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Federal Reserve Bank of Chicago - -

February 14, 1964

Agricultural Letter

Number 739

THE PRESIDENT'S FARM MESSAGE to Congress included recommendations for new legislation on several commodities but contained few details of the proposed programs. The President also called for expansion of food distribution programs and further emphasis on rural area development as part of the general "War on Poverty" theme.

For *dairy products* the message advocated "incentive" payments to farmers who reduce their production of milk. In addition, farmers in areas covered by Federal milk marketing orders would, through a "base excess plan," be permitted to reduce their output of milk without reducing their share of the class I market.

For *wheat* the message recommended that the existing law be amended to permit farmers to participate in a "certificate program" on a voluntary basis. This apparently implies the use of "marketing certificates" which would be issued to farmers who complied with the program (similar to the program rejected in the referendum last summer except that participation would not be mandatory). Wheat processors would apparently be required to purchase the certificates accompanying any wheat purchased and thus help support the wheat farmers income.

In the absence of any new legislation, farmers complying with present acreage restrictions would be eligible for price support loans of \$1.25 per bushel on 1964 crop wheat compared with the total support level of \$2.00 in 1963. Because of strong foreign demand and the possibility of wheat legislation, farmers can presently contract 1964 crop wheat for future delivery in July for about \$1.70 per bushel.

For *cotton* the message called for legislation that would eliminate "the inequity" of the present two-price system under which domestic mills pay a substantially higher price than foreign mills for raw cotton. Presumably, subsidy payments would be made directly to textile mills or to growers to bring domestic mill raw material costs in line with those of foreign mills. Also recommended: growers be permitted to produce cotton above their basic acreage allotments for sale at world prices without any subsidy, but under arrangements that would not increase existing stocks.

Other recommendations included: legislation to remove restrictions on the sale of domestically produced sugar; enactment of potato acreage allotment and marketing quota legislation (which would be submitted to a referendum); extension of the food for peace program for an additional five years; expanding and making permanent the food stamp program; authority for insured loans on rural housing for the elderly and better housing for migratory and other farm labor, and expansion of the cropland conversion program to encourage permanent transfer of land to such uses as outdoor recreation and forestation.

The budget submitted to Congress last month estimated Federal outlays on behalf of agriculture and agricultural resources in the fiscal year ending June 30, 1965, at \$4.9 billion. This would be about \$1 billion less than the expected total in fiscal 1964 and nearly \$2 billion below actual expenditures in 1963. Moreover, it is the smallest amount budgeted for agricultural expenditures since 1960.

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Budget Expenditures	Actual	Estimated	
	1963	1964	1965
	(million dollars)		
Farm income stabilization and food for peace.....	5,517	4,746	3,750
Agricultural land and water resources	404	417	423
Rural electrification and telephones ..	342	219	216
Farming and rural housing.....	300	279	130
Research and other	391	409	388
Total	6,954	6,070	4,907

Budget expenditures for agriculture in past years, however, have proven exceedingly difficult to estimate accurately. In fiscal 1963, for example, the budget was initially estimated at \$5.8 billion; it was later revised to \$6.7 billion and the actual expenditures were nearly \$7 billion. Again, for fiscal 1964, the budget initially was projected at \$5.7 billion but this was recently revised to \$6.1 billion.

The biggest item in the agricultural budget is, of course, the amount allocated for farm income stabilization and food for peace which accounts for about three-fourth's of the total Federal outlays for agriculture or about \$3.8 billion. It is in this category of expenditures that the largest reductions are anticipated—nearly \$1 billion. The projected reduction would result largely from anticipated lower costs of agricultural commodities (primarily wheat) shipped under the food for peace program and the international wheat agreement, and expected lower expenditures on cotton and dairy programs.

These savings, however, are predicated on the assumption that (1) domestic wheat prices will not exceed international wheat agreement prices and thus export subsidies will not be required and (2) proposed cotton and dairy legislation will be passed.

Other expected reductions from prior budget expenditures would be effected through legislation in the Federal financing area that would largely replace direct Federal loans with insured private credit in financing of the rural housing program. Also, the full cost of inspecting meat, poultry and grain would be financed through a system of fees.

Roby L. Sloan
Agricultural Economist