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# The Farm Problem ---



## Eat Up or Export the Surplus?

by Leon E. Thompson

**W**ITH HUNGRY PEOPLE anywhere in the world, it's difficult for many to think of our farm production in the United States as being "surplus." Why don't we use some of our surplus to feed these people? Can't we use it to help feed our own low-income families? Or, why doesn't industry use more farm products to remove or help reduce the surpluses?

This article is an attempt to take an unbiased look at some of these and other hopes for expanding the demand for our farm products. It's based, to considerable extent, on information from a conference on the "Demand for Farm Products" at Iowa State, sponsored by the Center for Agricultural and Economic Adjustment.

**"Is there really a farm surplus? Wouldn't low-income families in our cities and towns eat some of the surplus if they had a chance?"**

Farm production has been outrunning consumption, both domestic and foreign, by about 5-8 percent annually in the United States in recent years.

Few people would deny that low-income families would eat more or better food if they could get the extra food for nothing. But no one has seriously proposed *giving* food away in large amounts. For one thing, most of our stored surpluses aren't in "food form"—they're in the form of raw wheat, corn, soybeans, etc. They'd have to be processed and distributed in one way or another.

What most people think of in proposing to help low-income families eat better is a program that would do either or both of two things: (1) raise

their income so they could afford to spend more for food or (2) help them get more food with the same amount of money by providing them with "food stamps."

Recently there have been several careful analyses of the potential effects of programs to increase food consumption among low-income groups. One such study was made by John M. Wetmore, Martin E. Abel, Elmer W. Learn and Willard W. Cochrane of the University of Minnesota. A 1954 survey had indicated that about 9 percent of all persons in the United States were in families with per-capita incomes of \$250 a year or less. Another 9 percent were in families with per-capita incomes of \$250-499.

In their analysis, the Minnesota economists estimated that the total quantity of food eaten in the United States would increase by 2.4 percent if all persons in the country were to receive a minimum of \$500 income per capita. The methods to increase the food spending power of low-income families might be a cash grant or a food stamp plan.

Karl Fox of Iowa State, however, points to a number of practical problems that would reduce the potential 2.4-percent food consumption increase. Of the 18 percent of all families in 1954 that received less than \$500 per capita, about two-fifths lived on farms. About two-thirds of the 18 percent lived in the South. There, two-thirds of all farm families and one-fourth of all nonfarm families would have been eligible. But it's possible that important groups in the South might oppose such a large-scale subsidy from the federal government.

Allowing for regional and farm-nonfarm complications, for the barter of food stamps for other commodities and for other "slippages," Fox estimates that the practical potential of food programs for

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low-income families probably doesn't exceed 1 percent of total production.

What would the cost of such a program be? Fox estimates the cost of achieving a 1-percent increase in demand through food programs for low-income families would range from  $\frac{1}{2}$  to 2 billion dollars a year.

"Are people in the United States generally eating enough of the high-quality foods--meat, dairy products, etc.? Wouldn't advertising and promotion lead them to eat more of these foods?"

In the conference on the demand for farm products at Iowa State, Robert Walsh of the USDA pointed out that advertising spending in 1957 amounted to more than 10 billion dollars. This was equal to about  $2\frac{1}{2}$  percent of the gross national product and about 3 percent of disposable personal income. Approximately 2.1 billion dollars was spent on advertising for food and food products. This is about 20 percent of all advertising spending and is almost equal to the proportion of disposable personal income spent for food. So it appears that food in total is getting at least a fair share of attention in advertising.

It's difficult to say whether or not people are eating "enough" meat and milk products. Many different combinations of food can furnish a nutritionally adequate diet. The USDA prepares diet plans at three levels of cost: low, moderate and liberal. These plans are designed to furnish nutritionally adequate diets at a cost consistent with food expenditures by families in the low, moderate and liberal income groups.

The Minnesota economists mentioned earlier calculated the percentage changes in total food consumption in the country where per-capita food consumption was adjusted to the diet plans at three levels of costs. If all consumers followed a "liberal-cost" diet plan, total food consumption would *increase* about 2.3 percent. With an all-consumer "moderate-cost" diet plan, consumption would *decrease* about 5.5 percent. Under a "low-cost" diet plan, total food consumption would *decrease* by 21.8 percent.

These estimates indicate that, by and large, the U. S. consumers are getting a high-quality diet now. Add to this that overweight generally is considered the number-one nutritional problem in this country, and there's not much justification left for trying to get U. S. consumers as a whole to eat more. This doesn't mean, however, that advertising and promotional efforts on behalf of food should be cut back or abandoned. In our competitive economy, such a cutback might see consumers switching some of the current level of food spending to cars, recreation, appliances and the like.

"We know that there are many hungry people in Asia, Africa and South America. Can't we send them some of our surpluses?"

This question, of exporting more of our farm production, is one of the most complex areas in farm policy. Among factors to be considered here are our own exports for dollars, the markets of other friendly countries, transportation facilities (ports and railroads) in the countries receiving food exports and the food distribution system in the country receiving food shipments. Another factor is our foreign policy in general and in the so-called cold war.

So increasing exports of our farm production isn't a simple problem. But exports are important to U. S. farmers and to many foreign countries.

Exports of U. S. farm products are at a relatively high level now—averaging about 4 billion dollars annually during the 1956-58 period. Exports during the 1958 marketing year represented the production equivalent of about 50 million acres, or about 1 of every  $6\frac{1}{2}$  acres harvested, according to Richard H. Roberts of the USDA's Foreign Agricultural Service.

Wheat exports have been averaging around 450 million bushels yearly, about 40 percent of the average annual production in recent years.

U. S. agricultural exports now move overseas under a variety of programs. First, the United States has 78 agricultural attaches in 54 countries to watch foreign agricultural developments and to help open markets for U. S. farm products. The Commodity Credit Corporation exports farm surpluses at competitive world prices.

The Export-Import Bank of Washington finances agricultural exports. Other agricultural exports are financed under the Mutual Security Act. Finally, under Public Law 480, the government can sell farm products abroad for foreign currency. This law also authorizes donations of farm surpluses and the barter of them for strategic materials.

A secondary objective of Public Law 480 is the development of economically backward countries. The government accepts payment in foreign currency for the shipment of food. Then it uses the local currency to finance development projects in that country.

Of all agricultural exports during the past few years, 30-40 percent of them have represented "subsidized exports." Another 20-30 percent is being sold for dollars at special prices. The remainder are "straight" commercial exports for dollars.

In the main, it would be hard to sell more U. S. farm products abroad without harming the export trade of friendly countries. Even if we disregarded the protests of other countries and cut prices to move more of our farm products, it's questionable

whether this would accomplish much. The main effect would probably be to force other exporting countries to match our price reductions.

One other factor weighs against us in the struggle to increase farm exports. Most other countries guard their dollar exchanges carefully and tend to use them in buying other goods we have for sale. They spend their dollars for American farm products only when they can't get those farm products at similar prices with other currency from other sources.

To get an idea of the potential that could be involved in exports to aid the economic development of friendly foreign countries, Karl Fox of Iowa State calculated the population growth and calorie requirements of India and other economically underdeveloped countries. His conclusion:

"... If underdeveloped countries having a combined population of about a billion people were to get *all* of their increased calories (in the form of wheat) from the United States during the next 6-8 years, the increased exports would probably not wipe out our surplus problem, though they might bring total demand very nearly in line with total supply."

It isn't likely that *all* of these countries would get *all* of their increased calorie needs from the United States. And even if there were no transportation and storage problems, no economic or political considerations, the calorie needs of the people in the underdeveloped countries wouldn't provide an unlimited market for our surpluses.

"Why can't we use more farm products for industrial uses--alcohol from corn, for example?"

The chemical industry uses large amounts of farm products each year. About 2 billion pounds of starch are produced from cereal grains each year. Vegetable and animal oils are used in the soap and paint industries. Grain is used in large amounts for alcoholic beverages.

Large chemical plants were operated to make alcohol for the manufacture of synthetic rubber during World War II. Some plants were large enough to process 100 million bushels of grain a year and to produce 250 million gallons of 95-percent ethyl alcohol.

These plants are idle today! Why? Because it's more economical to make alcohol by the reaction of ethylene from natural gas and water than by fermenting starch or sugar products. How cheap would corn have to be to compete? Morton Smutz, head of the Department of Chemical Engineering at Iowa State, says that it's likely that corn would have to be available at less than 50 cents a bushel for a producer to consider corn as a raw material for producing industrial alcohol.

Smutz adds that it's possible to make hundreds of chemical substances from farm products and by-products. But in most cases, he says, it's more economical to make the same products by more simple chemical reactions using products from crude oil or natural gas. There's a chance that the chemical industry may discover new processes that *decrease* the industrial use of farm products. On the other hand, research may uncover *increased* uses for farm products. Only time will tell what the future holds. But increased industrial use of farm products doesn't appear to hold an immediate answer for our farm surpluses.

"Is there any chance at all to increase the markets for our farm surpluses?"

Examining each one of the possible methods of increasing the demand for farm products indicates that no one of them at present holds the answer to our farm surpluses. But this doesn't mean that pursuing these methods is without value.

First, a program of research on industrial uses for farm products may be necessary to maintain the present use of farm products by industry. Research by private industry may discover shortcuts in production that don't involve farm products as raw materials. So research on new industrial uses for farm products is likely to be needed just to maintain present use.

Second, research on industrial uses for farm products stands some chance of coming up with a process that could add significantly to the amount of farm products used by industry. Though the chances for success are by no means assured, it is an area that deserves continued attention.

The vast majority of American people are well fed, even liberally fed. But there is a small percentage who are not. The food stamp idea will continue to receive attention for this reason. Here, humanitarian and surplus disposal motives coincide.

The use of some of our farm surpluses for economic development of certain foreign countries draws support from those concerned with our foreign policy, from those interested in helping needy people and from those interested in farm surplus disposal itself.

Even though a program of exports for economic development wouldn't *solve* our farm surplus problem, it would help reduce our surpluses and follow the traditional American social value that hungry people should be fed.

**To sum up:** Possible expansion of the demand for farm products doesn't seem to hold a total solution to our farm surplus problem. Rather, it offers opportunities (1) to contribute to our national security, (2) to help underfed people here and overseas and (3) to *reduce*, but not eliminate, our farm surpluses.