Government Programs and the Cottonseed Crusher[1]

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When the subject of this discussion first came up, I was offered the choice of either the position of cottonseed and its products or the longer-range subject of national cotton programs. As a compromise I shall touch on both, for cottonseed is inextricably bound to cotton. Seed and its products are not free to respond to supply and demand in the way that other agricultural commodities are. It is doubtful that increasing the support price of seed would result in a really noticeable change in the acreage or the marketing of cotton although it could make an enormous difference in the marketing of seed. As a result of this dependence, the seed crusher must be concerned deeply with the construction of the cotton support program.

Our agricultural goals should be freedom to choose, freedom to plant. We need price freedom that will allow U. S. cotton to compete on world markets both with other growths and with synthetics. Bigger and bigger subsidies are not the answer. The finished cotton only comes back again to compete with domestic goods made of unsubsidized cotton. Not long ago the president of a mill spent considerable time at a stockholders' meeting explaining the dire threat of imports of cheap shirts made with subsidized U. S. cotton. At the end of his talk when he asked for questions, one stockholder, a housewife, asked "please sir, will you tell me where I can buy some of those shirts?"

Quotas are also being proposed. The catch in this is that the countries that we are likely to put quotas on are the only countries in the world that consistently show a record of increasing imports of American cotton. Without exception they take more of our cotton than they send back. Japan, for example, takes 3.6 times as much American cotton as she ships back in the form of finished goods. A tariff on imports equal to the export subsidy as currently proposed by the Administration or this plan plus a tariff to compensate for lower labor costs abroad are not the answer either. Doing so is just one more way to force the consumer to pay for the agricultural program. It does not even have the appeal of being above-board. Quotas of any kind are almost certain to reduce the demand for raw cotton. In part the lower export demand will be offset by higher level of domestic mill-consumption. However, as usual, the kind of intense competition that gives rise to pressure for such restraints is triggered by a significant price difference. Higher prices domestically will almost certainly curtail total consumption even without the effect of retaliation. Lower cotton consumption means lower cotton production. This is the opposite of what the seed crusher and the merchant need.

We must hope for an end to forty-acres-a-mule thinking. More and more, the "big-picture" attitude will have to pervade both official and unofficial circles in agriculture. For better or worse we are committed to an ever-expanding international trade role. The prosperity of our growing population cannot be sustained by trading dollars endlessly within our borders. This was apparent to Adam Smith nearly 200 years ago. It is apparent and clearly understood now. We have undertaken to assume the international banking role that England held for centuries. We must sell abroad; we must buy abroad. We must produce what we are fitted for, or the world trade balance surely will turn farther against us. We must recognize that our currency is not necessarily the most prized or the hardest in the world today. To maintain its desirability we must show our desire and our ability to compete. Our greater land cost and higher labor cost can and will be offset by our greater mechanization, our greater know-how, our better research, and our desire.

The cost advantages of other countries will become less as their economies expand and as they improve their standards of living. Last week's Wall Street Journal carried a long article on the current upward wage pressure in Western Europe. This will spread slowly around the world. An over-protected U. S. economy will not be able to take advantage of the narrowing gap between overseas wages and U. S. wages. Among prerequisites of international trade, in which we are now heavily committed to engage, are justice and fair play. We have preached this for a generation and enforced it at home. Yet in agricultural commodities the U. S. is "dumping" all the time. This is losing us friends and customers steadily.

At least as important as maintaining our export markets for cotton is the task of simply maintaining the market for cotton fiber. During the same period that has seen U. S. cotton production fall from half of the world total to one quarter of it, a vast synthetic fiber industry has arisen. Some of the research, planning, and production, particularly in the case of rayon staple (cotton's most direct competitor), was fostered by high prices for cotton. High prices for cotton can encourage investment in synthetic research, plant, and equipment, but once these investments are made, low cotton prices may not win markets back automatically. Not only do users become accustomed to the new fibers, but the producers of the fibers can cut prices deeply because they have already made the investment. It is too late to turn back. The planners have not seemed to care whether cotton competed. Support methods and levels were and are sociological, economic, and budgetary decisions. Seldom were or are they economic decisions for many social planners do not wish to be bothered with economics. These planners not only set supports high; they strangle cotton production in one area and at the same time "reclaim" and irrigate new land in other areas.

We must remove from agriculture the heavy grip of the all-knowing planner. As Walter Lippmann said in "The Good Society," "not only is it impossible for the people to control the plan, but, what is more, the planners must control the people. . . . By a kind of tragic irony, the search for security and a rational society, if it seeks salvation through political authority, ends in the most irrational form of government imaginable, in the dictatorship of casual oligarchs. . . . The reformers who are staking their hopes on good despots, because they are eager to plan the future, leave unplanned that on which all their hopes depend; . . . the selection of the despots who are to make society so rational and so secure has to be left to the insecurity of irrational chance."

We hear a great deal about how the population explosion both at home and abroad is going to solve all the problems of U. S. agriculture in 10–20–30 years. We are told that if we can only hold out long enough, surpluses will be absorbed and there will be a great pressure on our productive facilities. I say to you, "don't hold your breath." Our agricultural capabilities and those of the rest of the world may scarcely have been touched. The promised day of reckoning is not only not imminent, it may never come. We will probably double acre yields of many field crops in the next 15 years. No one knows just what the oilseed capabilities of Brazil are, for example, or the protein capabilities of the sea. Nutritionally adequate protein can be obtained from things ranging from soil bacteria to seaweed.

To sit back and hope for the best is no way to run a business let alone the nation's agriculture. Yet this "wait" notion has pervaded the theory of controls since the days of the seven lean and seven fat years envisioned by Joseph. We are told, "what if cotton demand is declining due to higher prices? Some day so many people will be around that they will grab for cotton at any price." This demand is not going to send your children to college, maybe not even your great-grandchildren. It is certainly not going to do anything for the employees of closed cottonseed mills. One

[1] Presented to National Cottonseed Products Association, Biloxi, Miss.

such closing was announced a few weeks ago in the Cotton Gin and Oil Mill Press. The owners said, "it has been necessary to suspend cottonseed crushing operations . . . since the effect of cotton acreage control has been adversely felt. Reduced acreage of cotton has not permitted a sufficient supply of seed to permit crushing. . . . Only a reversal of farm legislation, permitting freedom from controls, will enable cotton to again become competitive in . . . (this) area."

SINCE the end of World War II the nation has been moving slowly but inexorably toward a showdown on what is popularly called the "Farm Problem." Yet really there is not one farm problem, there are two. First and most celebrated is the problem of cost. U.S.D.A. budgets take a huge portion of direct, domestic-benefit dollars and are equal to approximately 60% of total net farm income of around 11 billion dollars. Higher domestic consumer costs must add another billion dollars a year to the total bill. This sort of expenditure coupled with failure to show demonstrable results is annoying voters very considerably. As usual when feelings are aroused, the remedy will likely be worse than the disease. The second farm problem is the curious distribution of the moneys expended. In 1954 (the latest census year) major commercial farmers constituted 27% of the farm population, yet accounted for 79% of sales. These big commercial operators run mechanized businesses. Their output supplies all but the smallest portion of domestic use, export needs, and carryover. At the other end of the scale is the small farmer, a man acutely in need of a higher standard of living and greater economic opportunity. In 1954 he and his ilk were 56% of the farm population but accounted for only 9% of sales. The "in-betweens" were 17% of the farm population and accounted for 12% of sales. These then are the recipients of farm-program dollars. They receive help roughly in proportion to their sales and almost exactly opposite to their needs. We are guaranteeing prosperity to the prosperous and poverty to the poor. The big commercial operators are being hampered in their attempts to improve efficiency in a misguided drive to help the "little man," but helps him not at all.

That almost complete failure to aid the marginal farmer is perhaps the most unfair aspect of support programs as we have known them in recent years. His problem is a sociological one and requires a sociological approach. This country is probably the most generous nation the world has ever known. Most taxpayers would not have a really strong objection to some sort of income help to those in need. Directly or indirectly subsidized are airlines and barge lines, shipbuilders and magazine publishers, home builders and slum clearers, colleges and symphony orchestras, kids and old folks. We give willingly to charity drives for every conceivable purpose, both at home and abroad. All these things give us satisfaction. If we called income help to marginal farmers "subsidies" or just "donations to the needy," there would likely be nowhere near the pressure that there is now for the government to "stop throwing money around." We need an enormous shift in U.S.D.A. emphasis.

At present the Rural Development Program gets less than 1% of the U.S.D.A. budget and considerably less than 1% of U.S.D.A. enthusiasm. Yet this is the program to help the marginal farmer, the man in need. We must devote even greater pressure to develop free-dollar markets both at home and abroad for our surpluses. An example of the kind of research we need to spend big money on appeared in last month's "Cotton Gin and Oil Mill Press." It was reported that cottons are being chemically processed for wash-and-wear at the rate of nearly 2 billion lbs. a year. How much of this is new demand? Obviously we do not know. However I would guess that this wash-wear movement has resulted in more cotton consumption and has contributed more to the betterment of the cotton situation than all the Washington intervention since 1929.

The A-B cotton program is embarking on its second year. It was designed to try to ease the stranglehold of the government on the cotton business and to try to get cotton moving at an intelligent price. It was obvious that acreage allotments could only get smaller and U. S. cotton could only become progressively more of a burden at home and more of an unneeded item abroad. Smaller production threatened to ruin ginners, seed crushers, cotton merchants, cotton brokers, and everyone who depended on the volume of commodity handled. The great dependence of the Valley seed crusher on volume is illustrated by U.S.D.A. figures on theoretic crush-plant designs and actual market territory characteristics of the upper and lower valley. In every case, except the very largest mills, whenever volume increased, there was a significant increase in net per ton not to mention the big increase from bigger volume. This effect was particularly strong among the smaller and medium-sized mills. In some cases doubling volume tripled *per ton* net. The lower the volume of seed available, the tighter the mill will always be pinched. Similar dependence on volume will be encountered all along the marketing line. The only one untouched by lower volume is the farmer, for his support price is usually changed to compensate for volume.

High price-supports have fostered research, production, and use of synthetic fibers both in the United States and abroad and have encouraged bigger cotton production all over the world. The old program was without sense, without hope. A-B was designed also to return to the farmer some measure of control over his economic destiny. This it has done; witness the general choice last year to participate in "B" whereas this year "B" will be more popular in many areas, less popular in others. Here at least is economics returning to the scheme of things, and this is a step in the right direction. A-B is far from perfect. As you may be aware, there was one day last August when not a single transaction was handled on the New Orleans Cotton Exchange, the first time in its 88-year history. Spot cotton houses are dying on the vine. We cannot afford to lose these people and their generations of accumulated know-how. We are hopeful that the lower support this year and the more general choice of "B" plus the upward adjustment in CCC resale price may allay some of the difficulty. At least within the framework of this program some solution appears feasible. We have broken away from past errors. However, unless the law is changed, tight controls and supports are likely to be re-introduced in 1961. It seems almost certain that this would result in higher support and lower acreage. If this is allowed to happen, we shall be back on the same old bankrupt road.

THIS PAST SEASON the effects of changes in the cotton program were felt throughout the belt. In most areas production of seed was much higher than a year before. Despite this higher production, marketing was quite orderly and CCC was not forced to intervene. Seed remained fair. The big export demand for all meals served to offset the slow demand for SBO.

AUGUST-JANUARY EXPORTS

	1958–1959	1959–1960
CSO	74,245,000 lbs.	285,682,000 lbs.
SBO	449,295,000 lbs.	368,046,000 lbs.
CSM	5,102 tons	137,064 tons
LSM	12,493 tons	60,932 tons
SBM	245,061 tons	394,760 tons

CSO was in better demand than SBO because of lower availabilities of the items that compete most directly with CSO, that is PNO and Copra/CCNO. The huge olive crops along the northern rim of the Mediterranean reduced demand in the "poor-man's oil market," particularly in Spain. The result of all this was over-production of SBO, a stock build-up, and declining prices. Overseas demand was not sufficient to lift CSO prices as SBO was too much of a weight. Over-expansion of bean crush-facilities finally came home to roost. Too many plants worked too many hours. Lard production was also heavy as the hog cycle was in a mild liquidating phase. Lard, like cottonseed, cannot be stored for any length of time in its raw form (hogs), and storing lard itself is even worse. Meal demands have now tapered off somewhat, and this is reducing the huge over-production of SBO.

However the depressing factors in the oil-bean situation were not recognized until fairly late in the season. Prices were sustained by an important undercurrent of speculative demand. During the critical heavy-production, heavy-hedging period speculators absorbed trade selling. They paid too much because of over-enthusiastic official and unofficial estimates as to the eventual size of our exports of beans and SBO. The importance of this speculative buying cannot be overestimated. If it is not there this fall (and it may not be), fair amounts of seed and CSO might go to the government, and heavy bean-impoundings will take place.

There is a good deal of difference of opinion as to cotton production this coming season. Our own guess, based on analysis of "A" to "B" transfers and state yields (plus a number of assumptions), leans toward 600,000 bales higher than last year plus whatever production comes from "A" acres that have to be released this year to avoid losing history. Given reasonable weather, this final total might be 600,000 to 700,000 bales over last year. (Although this is far short of early guesses, many feel that we are still too high.) An increase of this size could mean a crush of 250,000 tons more seed than last year. This, in turn, would produce 85,000,000 more lbs. of oil and nearly 125,000 additional tons of meal. This is a lot of product to move even though most of the additional production will be pretty far west. In the East and in the Valley production will be lower. This could mean another free year for seed in the Valley and East, depending on the level of meal-export demand and whether the big European consumers buy CSO early (as this season) or late (as the year before).

SOYBEAN over-planting has been encouraged again by cutting the corn loan 6¢ and leaving the bean loan unchanged. March intentions indicate $1\frac{1}{2}$ million more acres to beans than last year. This will probably mean 30–36 million more bushels. (The final total might be even higher.) However I do not think crush will be any larger this season, maybe a shade less as the product market may not be there. About offsetting the higher total oil out-turn will be a somewhat lower level of lard production, perhaps 100 million lbs. less. We shall, as usual, be heavily dependent on the level of exports of products of both oil seeds. Meal exports may be lower. Last summer and fall were extremely dry all over Western Europe (comparisons). This of course, could happen again, but it would seem unwise to pin much hope on it.

World oil demand, on the other hand, may be good. World peanuts/PNO available supplies will be smaller because of light crops in India, China, and West Africa. Carryovers will be very small. Recovery of Philippine copra/coconut oil production will be slowed by typhoons last winter that will affect the maturing crops of this coming fall and winter. Mediterranean olive oil production will be sharply reduced as the peculiar biennial cycle of the olive economy calls for next year to an "off" year in the heavy-producing areas. Potentially lower meal demand coupled with good oil demand should mean steady-to-better oil prices in the fall.

Domestic oil and meal demand should not vary greatly from this past season. There may be some price pressure on seed because of low meal prices if above estimates should prove correct. Seed may open the season at or near support. The early run will of course be absorbed, then what? It is certainly to be hoped that seed and products can be held away from CCC. For the acquired products always come back. When they do, they impair the market of the original mill seller. In the meantime mill storage is tied up, and CSO is losing sales to its competitors, sales that can never be replaced. It will be noted that all of these demand items exist independently of direct government action. Either the market is there, or it isn't. Manufacturing a market by government holding is only a mirage. When government is helped out of a particularly sticky inventory problem by weather in the Philippines, in Argentina, in China, by wars, or speculator buying it is nothing but a windfall.

U.S.D.A. has not had this kind of luck in wheat, corn, cotton, or peanuts. Marketing of these items is never free of the iron grasp of CCC. Stocks keep mounting, and storage costs keep building up. When the liquidation of these embarrassingly large inventories is undertaken (and eventually it will be), stockpile sales will pre-empt the market of both producer and middleman. For make no mistake, U.S.D.A. is only trying to protect the price to the farmer. This is the duty they are charged with, not the protection of the margins or the incomes of ginners, crushers, brokers, merchants, or futures firms. These factors in the marketing scheme have no one charged with their protection. When government action benefits them, it is usually either illusory, transitory, or accidental.

We are currently seeing the grain warehouse industry attacked from many sides. Storing government grain will soon become a losing deal for many terminal operators. Yet some would have you believe that grain storage rates are "The Farm Problem." This is nonsense. Storage rates that give occasional windfalls to a few country operators are the result of national failure to put our agricultural house in order. Straightening out our difficulties can only be accomplished by a legislature which has a desire to do so. This desire will in turn only come from pressure from a determined, enlightened electorate. We, who have a big stake in the future of agricultural marketing, must make ourselves heard. If we do not, then we have no right to complain over what we get. If this industry joins others with similar problems to demand intelligent programs, there is an excellent chance that they will appear.

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HELP, HELP! The man in the Society who wears two hats, the vice presidency and the Journal editorship, has set a goal as membership chairman which is intended to increase the Journal circulation by a net 300 during the coming year. His slogan is "get-a-member," and he is counting on much help from the present membership.

Who is this man? A. R. Baldwin, of course; his address for the flood of applications he expects is in care of the American Oil Chemists' Society, 35 E. Wacker Drive, Chicago 1, Ill.

Publications Available

Revision No. 1, a 25-page supplement to "Compilation of Labeling Laws and Regulations for Hazardous Substances," which contains new laws and regulations to September 1959. One free copy to each member company, $2 for extra copies, $3 for nonmembers. Original book and Revision No. 1 together are $5 to members, $7 to nonmembers. Chemical Specialties Manufacturers Association, 50 E. 41st street, New York 17, N.Y.

Annual Report for 1958 of the European Federation of Chemical Engineering, 233 pages, typescript. DM 15 to members of affiliated societies, DM 30 to nonmembers. Dechema, Rheingau-Allee 25, Frankfurt am Main, Germany.

Dechema Monograph, Vol. 36, "Werkstoff-Technik," reports on lectures delivered at the European Convention of Chemical Engineering and the ACHEMA Congress 1958. This volume deals with the testing of materials and the properties and applications of structural materials. Summaries of the papers in French and English. 280 pp., 146 illustrations, DM 26.25 to Dechema members, DM 32.50 to nonmembers. Verlag Chemie GmbH, Weinheim Bergstrasse, Frankfurt am Main, Germany.

The DuBois Company Inc., Cincinnati, O., has opened its new laboratory, which occupies the entire top floor of the DuBois building.