

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK

The meeting was called to order by Rep. Bill Fuller at
Chairperson

9:00 a.m. ~~XXX~~ on March 3, 1983 in room 423-S of the Capitol.

All members were present except:

Committee staff present:

Bruce Hurd, Revisor of Statutes' Office
Raney Gilliland, Legislative Research Department
Kathleen Moss, Committee secretary

Conferees appearing before the committee:

John Blythe, Kansas Farm Bureau
Dee Likes, Kansas Livestock Association
Becky Crenshaw, Committee of Kansas Farm Organizations
Gerald Riley, Kansas Wheat Growers Association
Dr. James Wadley, Washburn University

Chairman Fuller instructed the committee that the meeting would have to adjourn 5 or 10 minutes before 10:00 since the House session will begin at 10:00. The hearing for the opponents will continue on HB 2415 concerning minimum pricing.

John Blythe, Kansas Farm Bureau, submitted a prepared statement, Attachment No. 1, in opposition to HB 2415 saying it would place an embargo on Kansas farmers.

Dee Likes representing the Kansas Livestock Association was recognized. He said they recognize the current problems and appreciate the good intent of the bill, but they have a different view point on what should be done. The KLA opposes HB 2415 and urged the committee not to pass the bill. There are several potential problems. Agricultural producers could have more regulations they they want. Grain, unlike oil, is produced world-wide. It is a serious violation of freedom of farmers. If we were to legislate higher grain prices in Kansas or a group of states, it would in effect, create an island and would end up being harmful.

Becky Crenshaw, Committee of Kansas Farm Organizations testified in opposition to HB 2415. She represents a coalition of 20 farm organizations and asked this committee to not act favorably on this bill. She said that this was done for the tobacco industry in 1631, and it did not work. There was an abundance of tobacco grown but no market for it. Kansas grain is not easily identifiable from other grains. Wheat is adaptable to different growing conditions and can be grown in many locations. She expressed serious concerns about this type of legislation.

Gerald Riley, Kansas Wheat Growers Association testified in opposition to HB 2415. His organization goes along with the other conferees today and will not go over the same points. We are working on a long range program with the secretary of agriculture and other farm organizations. There are three factors for the farm program; price, market and controls and that is the only way we can address this type of problem. The Kansas Wheat Growers Association strongly opposes this type of legislation.

Dr. James Wadley of Washburn University was recognized. It was pointed out that he is neither proponent or opponent, but here today to give information on HB 2415. Dr. Wadley said he has concern for the situation in farm country and appreciates what the farmers are

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK,

room 423-S, Statehouse, at 9:00 a.m. ~~pm~~ on March 3, 1983, 19

facing. Looking at HB 2415 at the legal point of view, in his opinion only Section 3 is without legal problems. He pointed out several problems, such as:

1. It might raise equal protection questions
2. It could cause problems with interstate commerce
3. The potential price set for February of each year regardless of commodity could be a problem
4. The secretary is given authority without any legislative guidance.

Chairman Fuller complimented both sides for their presentations at these hearings the past two days. He expressed concern that agriculture is a serious problem across the state. He informed the committee that the hearing is closed on HB 2415 and that we would meet tomorrow to take action on the bills heard this week.

Chairman Fuller distributed a copy of a letter from Melvin Thompson of Medicine Lodge in opposition to HB 2415. See Attachment No. 2. Also distributed was testimony of Dr. Barry Flinchbaugh of Kansas State University, given before the Senate committee two years ago. It is Attachment No. 3. Dr. Flinchbaugh said it is as good today as when it was given as nothing has changed. Attachment No. 4, by Dr. Orlin Grunewald of K-State was also distributed to committee members. Chairman Fuller requested that the committee read the handouts to prepare themselves for the meeting tomorrow and be ready to take action.

The meeting was adjourned at 9:58 a.m.

The next meeting will be on Friday, March 4, 1983 at 9:00 a.m. in Room 423-S.

GUEST REGISTER

DATE March 3, 1983

HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE AND LIVESTOCK

NAME	ORGANIZATION	ADDRESS
James Bradley	Washburn Univ. Law School	Topeka
Paul E. Fleener	"	"
Paul E. Fleener	Kansas Farm Bureau	Manhattan
John Blythe	"	"
Gerald Riley	K.A.W.G.	Dighton Topeka
Don Jacka	KANSAS STATE BOARD of Agriculture	Topeka
Ann Peckham	Fa. Co. Farm Bureau	Rantoul
Cherry Coen	Fa. Co. Farm Bureau	O'Hawa
Clarence H. Bryant	Farmer in Banker	Scott City Kans
Leis M. Bryant	AAM	Scott City
Gerald Hartman	AAM	St. Leger Mo.
Jack Stutz	FU NFO	Jet City
Newman Patton	Farmer Union	Scott City
Roland Wiebe	Ks Natural Resource Council	Topeka
Chris Halber	Ks. NFO	Mayetta
Darrell T. Ringer	AAM	Quinter
Robert L. Nixon	Farm Bureau	Syracuse
Edwin R. Filousky	AAM - FB	Pratt
Wen Bergman	NORM - AAM	Pratt
Mary Harper	AAM	Healy
Wen Bergman	AAM	Pratt
Palmer Simson	AAM	Ellsworth
John [unclear]	Kobayashi, Jr	Topeka
Janey Pantola	Kansas Co-op Committee Council	Topeka
John [unclear]	Kans Grain & Feed Assn.	Merion

STATEMENT TO THE
HOUSE COMMITTEE ON AGRICULTURE AND LIVESTOCK

RE: H.B. 2415
March 3, 1983
Topeka, Kansas

by
John K. Blythe, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and members of the Committee:

We are pleased to have an opportunity to speak on behalf of our members regarding the issue of establishing a minimum price for agricultural commodities. When the issue of minimum pricing of agricultural commodities surfaced two years ago, the Kansas Farm Bureau did not have a position on that issue.

As a result of the proposed legislation in 1981, the Kansas Farm Bureau prepared a research paper and sent it to the Policy Committee of each county Farm Bureau. Those of you on this Committee who were members of the Kansas Legislature in 1981 received a copy of this research paper dated July 29, 1981.

We believe that our research paper was accurate and comprehensive. It contained statements by both the proponents and opponents of the issue as they presented their views to the Kansas Legislature.

As a result of that paper, our county Farm Bureaus discussed the issue and the following resolution was adopted at the Annual Meeting by the voting delegates as 1982 Farm Bureau policy. This policy was reaffirmed again as 1983 Farm Bureau policy.

Commodity Pricing Legislation

We sincerely believe that the prices farmers receive for their grains and other commodities are too low. We further believe that legislated minimum commodity prices,

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if established by one state or several states, would not be practical and should not be promoted. We believe that one state placing a minimum price on one commodity that is grown worldwide and traded internationally will not be effective in raising the price of that commodity for Kansas farmers.

We will work through our organization and commodity groups to develop and enhance marketing strategies and opportunities.

I believe that our policy statement, although short, is very comprehensive and we believe that the passage of this legislation would be very similar to placing an embargo on Kansas agricultural commodities and would be very harmful to those farmers without sufficient financial resources to withstand such an embargo.

Thank you very much for the opportunity to make this brief statement in opposition to H.B. 2415, which seeks to establish a minimum price for wheat, feed grains, oil seeds, milk, cotton and rice.

Rep. Bill Fuller, Chairman
House Committee on Agriculture and Livestock
State Capitol
Topeka, Ks. 66612

Attachment No. 2 - 3-3-83
House Agriculture Committee

Mr. Chairman:

I regret that my farm operation will not permit me to testify in person regarding H.B. 2415. I am sure the authors of this legislation and your committee are sincere and well-intentioned regarding a solution to agriculture's price problems. However, as a producer, implementation of the provisions of H.B. 2415 would jeopardize my ability to survive the present economic crisis and would threaten the survival of our state's wheat industry.

To me liquidity, the lack of it, is the key to my opposition to this bill. Wheat is a cash crop and cash requirements are great in agriculture as you know from personal experience. My grain could not be converted to cash with our current surplus. Also, how could I borrow money using collateral that can't be sold? Presently, the government loan is far below cash quotes except for the reserve loan program. The government loan alternative would produce less money, would require interest payments and would likely force producers to default on these loans. Since prices generally are above loan levels but below price levels in the bill this could produce a windfall for the government and a knockout blow for the farmer.

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During periods of surplus we must aggressively sell our product. This requires product promotion, export market development and the development of new uses for our product. When business and industry faced burdensome inventories last fall the only way they increased sales was through price reductions and aggressive marketing. Now, we are seeing the first signs of an economic recovery, a direct result of this ambitious marketing strategy.

OPEC which controls 65% of the world oil trade has seen their price fixing cartel collapse. How can Kansas which represents less than 10% of world wheat trade and surrounding states representing only 60% of U.S. production control a world market depressed by world surpluses and competitor's subsidies?

I am also concerned that this legislation makes the producer a pawn of the government. Almost half of the bill is devoted to enforcement and penalties for violators. What is the estimated cost of the referendum and enforcement? Aren't there better ways to improve the farmer's plight? I would suggest tax relief and further product promotion as two preferable alternatives. Also, government controls have seldom improved the

farm producer's plight.

I have other concerns about this bill. This bill could destroy our grain milling and processing industry! This bill would produce problems along the stateline. Many elevators would be forced into bankruptcy if they couldn't market the grain or collect storage payments because farmers couldn't market their grain.

Frankly, I am surprised with your committee's knowledge of the agricultural problem that you are holding hearings on a bill whose potential risks so far outweigh the potential rewards. I would be interested in your views on the bill.

As I view it from the farm, the Kansas farmer is like a boxer who is down but not out. It is not fair to hit a man when he is on the mat. I feel that this legislation would put farmers who are in trouble down for the count. I have suggested some alternatives which would help us get back on our feet.

Thank You!

Melvin E. Thompson
Rt. 1, Box 86 Medicine Lodge

Senate Bill 447

Well senator you remind me of the definition of an expert which is an individual that is a hundred miles away from home and I'll remind you that I'm only about 56 miles away from home. I'm not here to support or oppose Senate Bill 447. I want to make that clear at the very beginning. I am here at the request of the Committee Chairman to discuss the economic consequences of the bill. I am an agricultural policy specialist at Kansas State University. I have with me Dr. Orlen Grunewald who is a relatively new member of our staff and who is a marketing specialist. When I'm finished with my formal remarks he will be available to respond to questions with me.

It is a basic economic principle that in order to set price you must control supply. Let me use some statistics that will shed some light on that principle in relation to Senate Bill 447. Last year Kansas produced 420 million bushels of hard red winter wheat. That represents 35 percent of the U.S. crop of hard red winter wheat. Kansas produced 18% of all the wheat produced in the United States and I would remind the committee right now that the various varieties and types of wheat are substitutable for each other, some more perfect than others, and under certain circumstances other grains for example rice are substitutable for wheat.

While Kansas was producing 18% of the total U.S. wheat crop, the U.S. was producing 18% of the total world crop. Therefore, the state of Kansas represents 2.6% of the world's wheat production. We export approximately 2/3 of our crop. Of the wheat that moves in international channels, 40% comes from the U.S. Take these figures and work with them and you will conclude that of the wheat that moves in the international market place, Kansas is responsible for between 7 and 8% of that total. It is my professional judgment put forth very simply and very straight forward that that is not a sufficient amount to control the supply and therefore set the price.

Furthermore, the state of Kansas does not control 7 or 8% of the wheat even though we produce it. We don't control it as a state, we don't control it as a single entity. It is in the control of thousands of Kansas farmers, grain dealers,

Transcript of testimony by Dr. B. L. Flinchbaugh, Associate Professor, Department of Economics, Kansas State University, Senate Judiciary Committee, Kansas Legislature, Topeka, Kansas, April 7, 1981.

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cooperatives, etc. The only way we could lay claim to control of that 7-8% is if there was total one hundred percent cooperation among Kansas farmers and among those who hold wheat.

If we legally set the Kansas price higher than the market price we will find ourselves with out buyers. Kansas farmers will have to ship their wheat out of the state to find a market which the bill allows under present form. This I believe actually defeats the intent and purpose of the bill. I am refering to the section in the bill which allows any producer of Kansas wheat to sell his wheat out of state. If we succeed in withdrawing our supply, which at the present time I would say is doubtful, others will benefit. Substitution between hard red winter and hard spring wheat will occur. Wheat acreage will increase in other states and in Australia and Canada.

The bill as it now stands, would set the minimum price no lower than 70% of parity. I must, to preserve my professional integrity, ask the question, "Why 70% of parity?" Parity means fairness, justice, and rectitude. Certainly no one that cares would deny that selling wheat as we are now doing at less than the cost of production does not meet the equitable theoretical concept of parity. But parity does not measure the farmer's income or his economic well being. It is simply a relationship between prices received and prices paid compared to a base period. Some use 1910-14 as a base, some 1967 and the U.S Department of Agriculture periodically updates the various mixes they use in determining parity. Parity assumes that new technology and improved management does not effect the cost of production. Parity assumes that the tractor and new wheat varieties are no more efficient than the mule or old wheat varieties. Only a cost of production index, an up-to-date cost of production index, compared to the prices received for products actually measure a farmers economic well being. Cost of production indices are subjectively determined. No one would agrue otherwise.

When you figure cost of production, who's cost of production do you use? The average farmer? For example what value do you put in for land? The value

it was purchased at or the value it would bring today on the market. What interest rate do you use, what labor standards do you use? You can come up with a cost of production figure for producing a bushel of wheat in Kansas that suits your fancy depending on how you figure it. If you look at continuous winter wheat in central Kansas, the 1981 crop, use \$700 an acre for the cost of land, 13% interest rate and \$4 an hour for labor. You come out with a four dollar figure as the break even point for the cost of producing the 1981 crop in central Kansas. That is one subjective way of figuring it.

Let me make another comment. We have a history since the early 30's in this country of price supports at the national level. History shows that price supports set above market prices interfere with the allocation of resources and the effects are simply bid into the value of the fixed assets, in this case, land. When price supports are set above market prices, those who benefit first are the large land holders and they benefit at the expense of small and young farmers. Some statistics which I think back up what I'm saying. Look at the price of wheat on the average in Kansas in the decade of the 70's and compare it with the increase in the price of land. The statistics are very obvious. In 1971, the price of wheat was \$1.30 a bushel, land values that year went up 2%. By 1973 the price of wheat had jumped to \$3.85 a bushel, land values that year went up 15%. In '76 the price of wheat had fallen to \$2.70 a bushel and land prices went up 11%. By '78 the price of wheat was \$2.85 which certainly is a decrease when you consider inflation. And that year the price of land only went up 1%.

As an economist I could make the argument, at least to a degree, that the price of wheat determines the cost of production of wheat rather than the other way around, as is usually thought. Because an increase in the price of wheat causes an increase in the price of land which is an increase in the cost of production the following year.

Mr. Chairman, I have briefly looked at the main economic consequences of Senate Bill 447. I have ignored such questions as the restraint of trade, the cost of

administration and the policing problems. I have also ignored the cost of storage, and the cooperation that would be necessary in other states and Australia and Canada for example.

Theoretically the bill attempts to place the state of Kansas and wheat in a similar position to the Organization of Petroleum Exporting Countries and oil. That it seems to me sums up in a nut shell the purpose of the bill and that therefore lays out very clearly the problem. The problem is we don't control the supply of wheat which is a renewable resource; even close to the extent that they control the supply of oil which is a nonrenewable resource. At best we control 7-8% of the supply of wheat that moves in the international market. OPEC controls 65% of the free worlds supply of oil. They are setting the price and they can do it with that degree of control.

Thank you and I would be willing to respond to any questions. If Dr. Grunewald would come up please. He recently joined our staff and he has studied this more thoroughly than I in the past several years. As some of you know I have been in a different capacity for several years and am now back in my old capacity so I brought him along for moral support.

Q. Are there similar economic characteristics among raisins, milk and winter wheat and may we possibly compare them from the standpoint of setting a price?

A. Senator I think those commodities that you mentioned, raisins and milk, are excellent cases in point to my basic primacy which is that it is an economic fact of life in order to set price you must control supply. Of all the farm groups, it seems to me, at least of commodities that are produced in mass quantities, which raisins really are not. (We could get by without eating raisins. We would have difficulty getting by without drinking milk) the dairy farmer has his act together. He is tightly organized. He is politically astute. He stays in the political arena. He has some control of supply basically. And therefore, with the help of federal marketing orders he has a handle on price. Milk is produced in heavy quantities on a regional basis not state by state, not world wide. Wheat grows almost anywhere. It is the international

commodity.

I suppose if I was forced to rank commodities I would expect that dairy would be the first one that we would gain control of and therefore set price. I don't know which would be last, but it would either be wheat or beef. Raisins is a speciality commodity grown only in a concentrated area by very few producers who are well organized and who are in control. Raisins would compare to OPEC in some respects a lot easier than wheat would compare to OPEC.

Q. If Senate Bill 447 or something similar does not pass, what suggestions do you have, if any, that we as state legislators representing the 2 million people in this state can do to improve the price of wheat? Is there any thing we can do or is that basically an national/international marketing problem and the law we pass in Kansas would have little impact.

A. Well I thought I knew the answer to your question until you added the last phrase. The bill will have impact. Especially with that section in it that allows producers to sell out of state. It means that most wheat will be sold out of state it seems to me. Wheat is an international commodity. One of our problems is (I say this with a chuckle because I discovered when I went to Wisconsin a while back that those Wisconsin people really believe that there are no dairy cows outside the state of Wisconsin. There aren't very many in Kansas but there are in a few other states.) that we often get the idea that nobody else produces wheat. The statistics don't bear us out. It is a international commodity and certainly a national commodity.

Now I think it is correct that if we could get all the states that produce wheat to work together to pass the same legislation at the same time and then if we could get Australia and Canada to join us, then its possible. That has been tried many times in the past and that means we have to give up our independence and so far we have not been able to do that. We talk cooperation and we don't cooperate.

I think one of the reasons that our farmers are so frustrated and I certainly understand why, they've tried it with the federal government and the federal government has basicaly followed a cheap food policy; at least the goal of the American consumer

is to have an abundant supply of high quality at the cheapest price possible. Since it is an urban Congress, regardless of which party controls it that has basically been the policy of the United States government. I can see the frustration and I can see why we are trying it in a state like Kansas where we produce a lot wheat but you simply have to control supply to set price.

To really set price and really be in control, you have to control entry into the production of the product. It is rather difficult to produce milk in this country and make a profit at it unless you work through a cooperative and in effect they control the entry into production of milk. The stronger the coops became the fewer dairy farmers we had producing milk because they have control of entry into production, and it takes those kind of stiff organizational controls to be able to control the markets and set the price of the products.

I would agree that the farm problem today is really no different, no longer unique it is the same problem the laboring man faces, its the same problem the small town businessman faces, its the same problem the manufacturer faces, it is the same problem you and I face and that's inflation. There is not much the Legislature can do about inflation. If your asking me how you as legislators can help the plight of the farmer, about the only way I know is to decrease his property tax. You can do that, to an extent. Beyond that I don't know what else you as state legislators can do for them.

Q. As an economist, is there anything inherently incedious or evil with what you call tight structual control.

A. I can't answer as an economist, that is not an economic question. That is a societal, value judgement question. As the dariy coops have gained more control of the milk supply, the Justice Department (the anti-trust division of the Justice Department) has certainly looked down their nose at them, and looked over their shoulders and even filed suit against them. Saying its not in the public interest. But that is a political societal question, that isn't a economic question.

Dr. Orlin Grunewald

Department of Agricultural Economics
Kansas State University

Mr. Chairman and Judiciary Committee Members:

I welcome this opportunity to appear before you today to provide testimony on Senate Bill 447. I am an agricultural economist at Kansas State University specializing in grain marketing. My purpose for being here is to provide this committee with a framework to evaluate the economic consequences of the provisions of this bill. I am here upon the request of the Senate Judiciary Committee Chairman as a public witness and not to provide any recommendation with regard to passage of this bill.

The objective of Senate Bill 447 is to set by administrative action the minimum price of wheat marketed in Kansas at a constant rate for a period of time. This would replace the present system where prices are set in the market as a result of the interaction of buyers and sellers. To be able to set the price of wheat in a free market, you must recognize that you can only increase the price of wheat under given demand conditions by reducing the quantity of wheat sold. Thus, in order to set the price of wheat you must be able to control the supply of wheat.

Industries which have enough market power to set the price of their product frequently have characteristics in common. Among these are: (1) concentration of production is normally in the hands of a few large firms; (2) they sell a product which can be easily differentiated by the buyer; (3) the product produced is nonperishable; (4) there are barriers to entry of new firms into the industry; and (5) the actions of participants within the industry can be easily monitored. Economic theory would suggest that the Kansas wheat industry would have to exhibit some of these characteristics to a varying degree to administratively control wheat prices.

Wheat production in Kansas is under the control of over 40,000 independent producers. On April 1, 1981 these producers and Kansas elevators and processors controlled 266 million bushels of wheat compared with 1.067 billion bushels in the remaining 20 major wheat producing states. Between April 1, 1981 and the start of the 1981 wheat harvest on June 1, the U.S. Department of Agriculture has estimated that the United States will use 424 million bushels of wheat for feed, domestic use and exports. Clearly, if the United States is going to use 424 million bushels

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of wheat in April and May and there are 1.067 billion bushels of wheat available outside Kansas, the Kansas wheat industry does not control enough of the wheat to force buyers to bid a higher price for Kansas wheat than the prevailing market price. Thus Kansas, although it is the largest wheat producing state, is not large enough under present market conditions to dominate the industry.

Industries which can control prices usually produce products which are easily differentiated by the buyer and are nonparishable. Wheat is differentiated by buyers only to a limited extent. For example, buyers of wheat would view wheat grown in Kansas as identical to wheat grown in our neighboring states of Colorado, Nebraska, Oklahoma and Texas. Because of this perfect substitutability, buyers of Kansas wheat would readily shift to purchasing wheat from other neighboring states if the price of Kansas wheat did not remain competitive with the price in neighboring states. In addition, there is a limit to the amount of time wheat can be stored and retain its quality.

Frequently, industries which exhibit control over prices are those which entry into the industry is limited. Most grain producers have the capability of producing wheat or can acquire that capability with minimal additional investment in capital. Producers of corn, soybeans, barley, grain sorghum and oats could easily enter into wheat production. Wheat producers can also increase production by shifting from other crops. In addition, wheat is readily adaptable to many different growing conditions. For example, winter wheat was planted in 41 states last fall. Major world wheat producing areas include Canada, Australia, Argentina, the European Community, Eastern Europe, the USSR, India and the United States. As a result, there are few barriers to entry into wheat production. Without effective entry barriers the ability of the wheat industry to control supply and thus set the price of wheat can easily be frustrated.

In addition, to control wheat prices the state of Kansas would have to be able to effectively monitor the actions of the participants in the wheat industry. With over 40,000 wheat producers and 551 active members of the Kansas Grain and Feed Dealers Association doing business in Kansas, the task and expense of successfully monitoring the actions of market participants may be impractical. It is unlikely, that an administered price system for wheat in Kansas can succeed without an affective monitoring system.

If passed, the bill will set a minimum quoted price for wheat in Kansas at 70 percent of parity. In January 1981 the parity price for wheat as calculated by the U.S. Department of Agriculture was \$6.95 per bushel. Under this bill the minimum price for wheat in Kansas would have been 70 percent of that figure or \$4.87 per bushel. The price of wheat in neighboring states, however, would be at prevailing market levels without the passage of a similar bill in each of these states. Wheat prices in the four states neighboring Kansas during March 1981 averaged \$3.84 per bushel. Thus, the administered Kansas wheat price would have been \$1.03 per bushel above prevailing market prices in other states.

Faced with this situation, Kansas processors would find it to their advantage to purchase wheat in neighboring states and ship it into Kansas. Kansas elevators would be relegated to storage facilities since they could not compete with elevators in neighboring states for sales. Kansas wheat producers, finding no buyers for their wheat within Kansas at the administered price, would ship their wheat to neighboring states and receive the going market price.

This concludes my testimony on Senate Bill 447. I will be happy to discuss any part of my economic analysis with you or to answer any questions you have pertaining to the economic aspects of this bill.

Thank you.