

sibilities among the agencies would undoubtedly be in order. Certainly, conflicting data should be reconciled as much as possible.

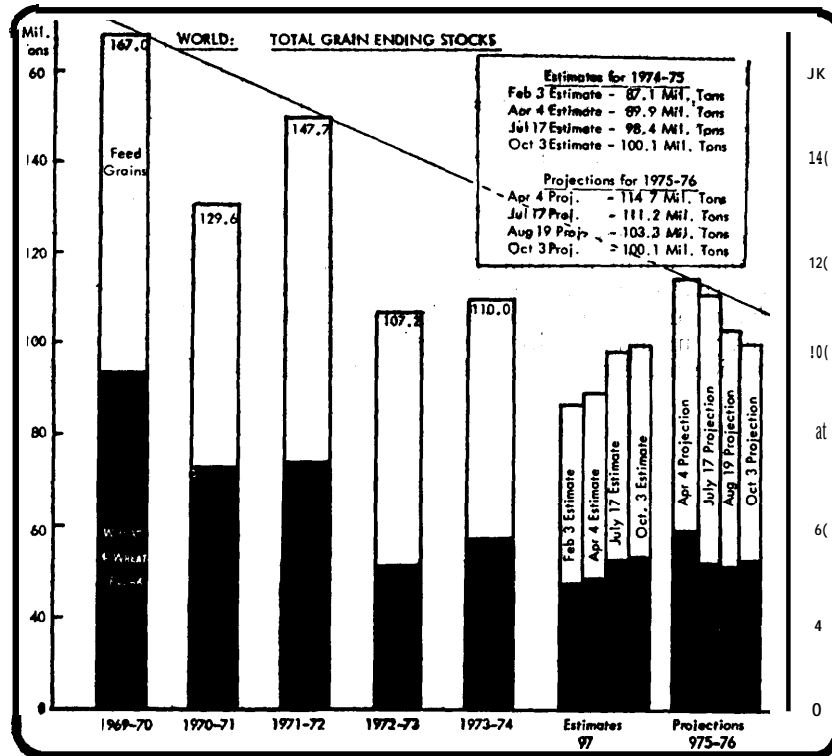
Our best hope is that hearings such as these will lead to further refinements in information systems. We feel that great progress has been made since 1972. Thank you for providing us this opportunity to express our views.

Chairman HUMPHREY. Mr. Keefe, please proceed.

STATEMENT OF DAVID KEEFE, LAMSON BROS., CHICAGO, ILL.

Mr. KEEFE. Since you are talking about a shortage of time, I'll try to be brief. Actually, several good suggestions have already been made in the information submitted by my fellow witnesses. Also, to be very frank, the presentation by key USDA officials yesterday and today confirms that they have already aggressively initiated programs to improve on the accuracy and timeliness of reports on the world food situation.

One thing I'd like to submit in which we have put together on this world food situation is a graph depicting a gradual decline in world carryover of food and food grains stocks since 1969. We have found a great deal of interest in this at seminars in the Midwest, especially among grain dealers and farmers you referred to earlier. I would like to pass out a few copies of this graph to show that if one does put a limit on exports, and in effect a limit on price, a potentially dangerous situation could develop within the next few years regarding world food supplies.



Just real quickly, since 1969 the world food and feed grain supply has basically been trending downward to a point where last year, corn went to a record price of \$4 a bushel and so beans went to \$9 because it looked like we were going to have the smallest carryover in recent history, certainly on a per capita consumption basis. The things that helped avoid this and caused grain prices to eventually decline were the tremendous reduction of livestock feeding and a few other abnormal developments such as the limitation on export business with Russia.

Also of major significance was the prospects of a record crop this year which looked like it was going to bring up this low carryover of roughly 85 million tons up to about 125 million tons, hopefully ending this downtrend in world stocks.

However, with the recent cuts in the 1975 crop in U.S.S.R. or U.S.A., you are back down to what Assistant Secretary Bell said yesterday, "to a point where stocks probably won't increase this year." Frankly, I think some people feel that if prices stay at the current relatively cheap levels you may even have a further decrease in stocks by next summer.

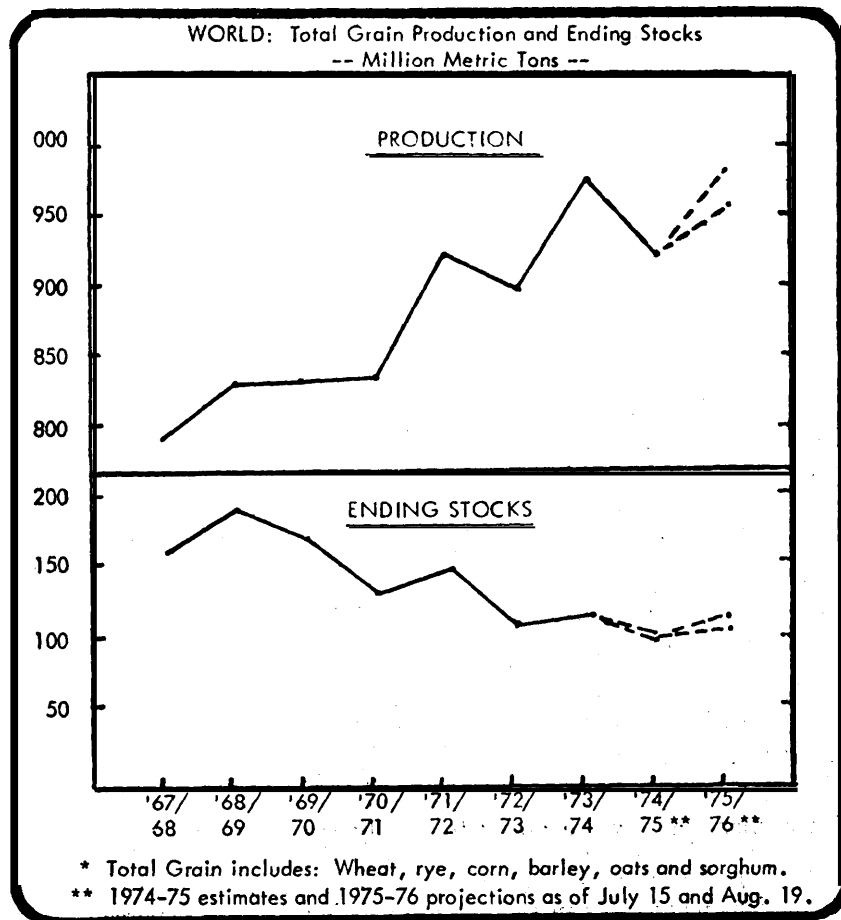
Then the point comes up, what if you put an upside limit on prices and we do not expand production next spring? If you get another bad crop, what is going to happen? We do not have another 80 million tons to lose now in the food reserve like back in 1969. Hopefully we'll have good crops next year to build back up the reserve that Assistant Secretary Bell has indicated is likely to happen, if not next year, by 1977-78.

"But there is, as you've probably heard, some strong predictions from some prominent meteorologists that you may have trouble again next year 'with weather in the major world crop areas. If we do, I think putting a limit on exports and therefore on prices in this area, is extremely dangerous. I would much sooner pay a higher price for food, And be able to, than have someone put a limit on price and discourage production here.

That's, about all I have except to say that the USDA is doing a tremendous job in surveying and reporting on this rapidly changing and complex world agricultural situation. The one thing I would suggest is that maybe more of this voluminous data be presented in graph form, such as the one submitted here. It would be more easily - and quickly understood by the grain trade as well as the general public, which needs to have a better understanding of this situation,

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Incidentally, one other graph that is a way of looking at this thing, is that world production has been expanding and even with that, the carryover stock is going down because per capita consumption is increasing. We personally have had a lot of talks with farmers and grain elevators and feed and food processors and users. They all tend

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to say that before we, as a nation, agree on something like export controls which will discourage next year's crop production let's look what is happening to food reserves; and let's get this reserve built up, before we tell the farmers we're not going to allow further exports, and thus reduce or eliminate their profits, which is kind of what sounds like might be happening at high levels here in Washington.

Chairman HUMPHREY. Yes, you mean the limitation on price?

Mr. KEEFE. The limitation on exports which has a bearish impact on price. If corn prices go up should Government be able to cut off exports. My own judgment would be that an adequate supply of agriculture-food-commodities is too critical a factor in the life of society throughout the world for any group, however smart they might be, to decide whereto place a price limit on food.

Chairman HUMPHREY. I want to say that I have the greatest respect for the people who try to manage and conduct our foreign policy, but to understand agricultural economics is not exactly a simple trick, and it isn't something that you get by being in the diplomatic sections of our Government and the State Department. This requires a great deal of experience and also keen insight into the makeup of the farmer.

Mr. SJERVEN. Senator you've preached the gospel of reserves for how many years at the annual GTA meeting in St. Paul? I don't know how many years.

Chairman HUMPHREY. I started in the 1950's.

Mr. SJERVEN. And you—

Chairman HUMPHREY. And I tell you, we are coming closer. You would be surprised. I had a meeting yesterday with Senator Bellmon about this. We've been sitting on two sides of the table here arguing about reserves, and now we're just about that far apart right now. You can just about slip a little piece of paper in between. When we get it locked together we're going to put a high and low block on this government, and we're going to finally get a reserve program. It would basically be farmer held. The only time the farmer has to pay that interest charge is when he sells his crop. We'll have a trigger mechanism where he can sell his crop, let's say, at 150 percent of a good loan rate, or so.

Mr. KEEFE. Yes.

Chairman HUMPHREY. When he gets the price, then he's capable of paying for storage charges and interest. The only time that the Secretary could release any of that crop under the loan program is when there is 200 percent of the loan rate. I don't trust Secretaries that are under constant political pressure to pull the skids out from under our producers

We've got a big battle going on here about this, I've got friends on both sides. Our friends that are in what they call strictly consuming States, assume that the protection of the consumer is by the protection of the price.

Mr. KEEFE. Yes, right.

Chairman HUMPHREY. Well, that is a protection for the consumer, if you can get anything to consume.

Go ahead.

Mr. KEEFE. Excuse me, Senator. Just one example of that is the current hog situation. We have the smallest per capita hog supply since the depression.

Chairman HUMPHREY. Yes.

Mr. KEEFE. Bacon is now \$2.50 a pound, and partly because of this price control thing of the past 2 years. Especially the farmer, he will react so strongly against that. If he was less independent. I guess it would be different. But he has reacted so strongly against price controls we now have a meat problem in this country, and we could have a problem in grain if we restrict exports and if we don't get good weather next year. Hopefully everything is going to be OK, but I'm just saying we're approaching a minimum supply situation which suggests we have to be very careful.

Chairman HUMPHREY. We also have the problem of feed prices for farmers. After all, farmers are the greatest consumers of feed grains. one of the reasons that I've always advocated some kind of a reserve was that it gave the farmer, who uses the feed grains, an assurance that there was a supply.

Mr. KEEFE. Correct.

Chairman HUMPHREY. The biggest problem for these farmers is they get up on the mountain and then someone pulls the trap down below and down he goes into the bottom.

I believe that there are some questions we wanted to ask these gentlemen.

Mr. CORDARO. I have one question, Senator Humphrey.

Chairman HUMPHREY. I will have to leave in a few minutes but I want you to continue. And I want to thank Charles Frazer of the National Farmers Organization, Jerry Rees, of the National Wheat Growers Association, Gene Hamilton of the American Farm Bureau, and Reuben Johnson of the National Farmer% Union for being with us today. You all have prepared testimony, do you not?

Mr. HAMILTON. Yes, sir.

Chairman HUMPHREY. Your prepared testimony will be made a part of the record. I would like you to know that we will pass on to USDA your concerns.

Go ahead, Mr. Cordaro. Is it all right with you if we proceed that way?

Mr. DADDARIO. If you would like us to, Senator, we certainly shall.

Chairman HUMPHREY. I think we should. I have to be on the floor of the Senate, but you may proceed under my authority. Thank you.

[The prepared statement of Mr. Keefe follows:]

STATEMENT OF DAVID KEEFE, LAMSON BROTHERS, CHICAGO, ILL.

I am David Keefe, general partner and head of Lamson Commodity Group. Lamson Brothers is a 101 year old New York Stock Exchange member firm, headquartered in Chicago, with branch offices throughout the corn belt. Approximately half of our total revenue is derived from commodity futures business, which is predominantly grain and livestock due to our geographic location and long history in the cash grain business.

Our primary objective is to service our large commodity clientele via proper execution of commodity futures orders and timely information regarding pertinent developments affecting commodity markets. Any comments I make regarding the timeliness and accuracy of agricultural information are my own and are to be considered in the light of Lamson's primary objectives. Please understand that I am not a spokesman for the Chicago Board of Trade.

A. SUMMARY OF COMMENTS

1. The analysis and publication of outlook information should be consolidated under one agency, probably ERS.

(a) World food feed grain summaries and outlook reports should be updated monthly.

(b) The complexity and extent of data required in the commodity area is such that many observers are unable to benefit from it. Therefore, more simplified *graphs* or charts should be used to summarize pertinent changes that may occur on a monthly basis, for marketing participants and consumers via various news media.

2. The USDA has done an admirable job of adapting to the dramatic changes that have occurred in the world food/feed grain situation in the last *three* to *six* years.

(a) However, these changes have created a situation in the commodity markets where risks have increased significantly.

(b) Therefore, staff, organization and budget changes to meet this new need " should receive high priority in the months ahead. Far too few people understand the serious changes in our world food supply situation that has occurred in the last few years.

Mr. CORDARO. I would like to introduce Mr. Daddario, who is the Director of the Office of Technology Assessment and Mr. De Simone, who is the Deputy Director. I just have one question that I would like to ask you all to comment on.

There seems to be a general feeling that the private sector is better able to estimate what's actually happening in the world. I know that many people felt Milling and Baking News was on top of the 1972 and 1973 wheat sales long before they were being reported by USDA. There are also many people that feel that the five or *six* top grain companies have a much better idea of what the supply and demand situations are because of the analytical techniques that they employ.

We are interested not only in how you use USDA's information, but if their analytical techniques are devices that you employ, such as the computers.

Mr. SJERVEN. We have spies.

Mr. CORDARO. It's that simple?

Mr. SJERVEN. The reason that Milling and Baking News was ahead of the Department of Agriculture and we were telling the Department of Agriculture what was going on if they would listen, is that the Department of Agriculture at that time had a hands-off policy. They had surpluses and they were paying subsidies and they wanted to get rid of the grain, and they had no idea that these sizes were there. Now, I'm convinced absolutely that no one in the Department of Agriculture, no one in the government had any idea how much grain the Soviets were going to buy in 1972. We were paying subsidies and once the business was underway, there was contrary to-almost a 180 degrees difference from the current situation and there was at that time not a special desire to know what was going on.

There was the feeling that we've got all the grain we need, and the reserves and bins are full all over the country, why worry about it. Just let the business get down, the subsidy payments will tell us how much is done, and we'll know.

There was just a real desire to avoid knowledge about the grain business and what was going on. Now, of course, it is just the opposite? and you have the Department of Agriculture doing a fine job of fine tuning and orchestrating what is going on, and whether it be monitoring, or whether it be approving or disapproving of it.

Mr. CORDARO. As a reporter, when you are confronted with conflicting estimates--one from USDA and another from CIA--what kind of analytical techniques can you employ to try to resolve the discrepancies?

Mr. SJERVEN. Well, we have to rely on incoming information. We don't have computer technology and that sort of thing. We use Mr. Harkness' computers. No, we have contacts with—I really don't mean that. That shouldn't go in the record.

We have very close contacts with everyone in any kind of business having to do with grain and flour, and so we get our information from them, and I assume that they are gathering it through their different ways of doing it and we rely very heavily on the Department of Agriculture. We think very highly of the information which the Department puts out.

Mr. CORDARO. Do you feel that there is any information that the Department is disseminating that is redundant or should be eliminated?

Mr. SJERVEN. Yes; I had in my statement some specific items. A couple of places there I think I suggested that rather than more proliferation of reports, that somehow more important to me right now is to be sure that the reports are reconciled, where you don't have these conflicting numbers.

Mr. CORDARO. Then you would support Mr. Harkness' recommendation?

Mr. SJERVEN. Yes, right.

The other thing is that once a report is made it becomes subjective and that's in my report as well. And then when a regular report comes out and an agricultural supply and demand report follows it, then maybe it's timely. But then comes a wheat situation, which has already been made out of date by the agriculture supply and demand estimates which were put out 2 days earlier, or something like that. This was already, you know, the data was gathered earlier, there's too much. I think it's too much.

I think that there's a great deal of pressure put on unfairly on some of the people. They didn't complain to me, but I just think that they are unfairly asked to analyze too quickly a significant crop report, and to come out with the supply and demand estimates the next day. That seems to me to be asking a lot of an analyst. Maybe you don't agree with me on that, but I think that is true.

Mr. CORDARO. I would like to get Mr. Harkness' comments on what the effect of the long-term trade agreements might be on the grain industry.

In other words, would Cook Industries, Inc. or the other four or five major companies favor or oppose such an agreement?

Mr. HARKNESS. I'm not—I guess I'm not in a position to speak for the company on that. I'm not fully sure of management's feeling on that.

Mr. CORDARO. We appreciate that.

Mr. HARKNESS. All I could do would be to go back and to support Mel's comment earlier about the fact that how is an agreement of this type going to work, and the only time it works is when it's not needed, when it's totally not needed. If we've got scarce supplies how do we shut off if we can't ship 10 million tons? If they've got surplus supplies why how do they shut off not taking it in?

Mr. CORDARO. Could you comment on the analytical techniques that Cook Industries, Inc. and other grain companies utilize, such as the computer models for growing crops, and how you make use of weather and remote sensing information?

Could you elaborate on how useful that is as an addition to the information that USDA supplies?

Mr. HARKNESS. Well, our techniques we mainly probably geared for timeliness. In other words, any time a number comes out from USDA, and let's say, *especially* a crop report comes out, that's a base, and at 3 o'clock in the afternoon when that report is released, at 3:01 p.m. no matter what our thinking was beforehand, our thinking is that, as of the first of the month, that's what it was.

And this is the attitude that we take on most Government statistics is that this is the base, but there's a timeliness here and it's a—so we find techniques which will indicate ahead of time what something else is going to say. And one point I would like to make along this line is the fact that I repeatedly hear out of FAS, Well, we haven't heard from the cable we've sent 2 weeks ago." If we want to know something today we pick up the phone and we call. We don't wait to send a cable, and because these kinds of things you need to know now, and you don't need to know 2 and 3 weeks from now. And I don't know if this can work within the Government, that you pick up the phone and call, but by the same token this is one solution we have to the timeliness problem.

Mr. CORDARO. When the August 11 crop report comes out, you know that reflects the conditions as of August 1. By that time, you've already accounted for what's happened during those 10 days.

Mr. HARKNESS. Yes.

And we're continuous analyzing all the known components of what makes a crop report. We, with public knowledge, or things that are most public, are--our actual precipitation data and temperature data.

Mr. CORDARO. Do you think the Department could decrease this 10-day lag? You obviously do it.

Mr. HARKNESS. We do it, but I think that's our job to do. In other words, on the 10th of September when they come out with the report, no, I don't think they should be asked that that report be as of the 10th of September.

I don't think that it's their commission. Their commission is to come out September 1. Now, if some kind of a—I'm not necessarily advocating this, but if we within the United States need some kind of an update system, you still leave that report as of September 1, and Winebody in Government determines a way to update and try to shoot toward the next one, but I'm not advocating anything.

Mr. CORDARO. What kind of premium does Cook Industries, Inc. place on information? Is 1 percent of the total budget spent on resources and techniques, or 5 percent?

Mr. HARKNESS. I am not sure. because I, as an information source of Cook Industries, have an unlimited budget. I mean, in other words, if there's a job to be done, I'm there. So I don't even know what my budget is as part of the total.

But I think to emphasize one point though of the priority that is put on, in mid-August I was standing in a cornfield in Iowa one day, and 48 hours later I was standing in one in France. We had a drought in Iowa and we had a drought in France, and they had to be assessed. It's just a matter of timeliness, because these things can't wait.

Mr. CORDARO. Thank you very much, Mr. Harkness.

Mr. HARKNESS. Yes.