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DEPARTMENT OF AGRICULTURE APPROPRIATIONS FOR 1965

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

KSU LIBRARIES
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SUBCOMMITTEE ON DEPARTMENT OF AGRICULTURE AND RELATED AGENCIES APPROPRIATIONS

JAMIE L. WHITTEN, Mississippi, *Chairman*

WILLIAM H. NATCHER, Kentucky
JOSEPH P. ADDABBO, New York
WALT HORAN, Washington
ROBERT H. MICHEL, Illinois

ROSS P. POPE, *Staff Assistant to the Subcommittee*

KANSAS STATE UNIVERSITY LIBRARY
MAY 13 1965
MANHATTAN, KANSAS

PART 4

FARMERS HOME ADMINISTRATION
FARM CREDIT ADMINISTRATION
FEDERAL CROP INSURANCE CORPORATION
GENERAL ADMINISTRATION
LANGUAGE CHANGES AND GENERAL PROVISIONS
OFFICE OF THE GENERAL COUNSEL
OFFICE OF INFORMATION
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF MANAGEMENT SERVICES
OFFICE OF RURAL AREAS DEVELOPMENT
RURAL ELECTRIFICATION ADMINISTRATION

Printed for the use of the Committee on Appropriations

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DEPARTMENT OF AGRICULTURE APPROPRIATIONS FOR 1965

WEDNESDAY, MARCH 4, 1964.

RURAL ELECTRIFICATION ADMINISTRATION

WITNESSES

JOHN A. BAKER, ASSISTANT SECRETARY OF AGRICULTURE
NORMAN M. CLAPP, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION
GEORGE P. HERZOG, CHIEF, BUDGET BRANCH, CONTROLLER'S DIVISION, RURAL ELECTRIFICATION ADMINISTRATION
DAVID H. ASKEGAARD, CHIEF, PROGRAM ANALYSIS BRANCH, CONTROLLER'S DIVISION, RURAL ELECTRIFICATION ADMINISTRATION
RALPH F. KOEBEL, ASSISTANT GENERAL COUNSEL FOR RURAL DEVELOPMENT AND CONSERVATION, OFFICE OF THE GENERAL COUNSEL
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Gentlemen, the committee will come to order. We have with us Assistant Secretary Baker, and Mr. Clapp, the Director of the Rural Electrification Administration.

My colleague on the Democratic side, Mr. Natcher, is presiding over the House in the consideration of one of the major pieces of legislation, at the request of the Speaker. He is thoroughly familiar with the REA system, and is one of the strong advocates of it. He will be here prior to the conclusion of the hearings but he asked me to explain the circumstances which makes him absent at the time you present your statement.

We shall insert in the record at this point pages 105 through 109 and 125 of the justifications.

(The requested information follows:)

RURAL ELECTRIFICATION ADMINISTRATION

PURPOSE STATEMENT

The Rural Electrification Administration was established by Executive Order 7037 of May 11, 1935, to make loans for extension of central station electric service to unserved rural people. It was continued by the Rural Electrification Act of May 20, 1936, and became part of the Department of Agriculture on July 1, 1939, under Reorganization Plan II. On October 28, 1949, Public Law 423 amended the act to authorize loans for furnishing and improving rural telephone service.

Electric and telephone construction loans are self-liquidating within a period not to exceed 35 years at 2 percent interest. Loans for wiring premises and the acquisition and installation of electrical and plumbing appliances and equipment including electrically powered machinery are also made at 2 percent interest but for shorter periods.

Electrification loans are made primarily to cooperative associations formed solely for the purpose of suppling electricity in rural areas. Borrowers are encouraged to expeditiously extend service to remaining unserved farms and to operate and maintain facilities to effectively serve the consumers and assure security for the Government's loan.

Telephone loans are made to private companies and cooperatives. REA cooperates with the industry to extend telephone service to rural areas. Continuous work is done with borrowers to develop sound construction and operating policies, and with manufacturers to develop efficient and economical equipment specifically designed for rural needs. Practically no standards or equipment specifically designed for rural telephone systems were in existence before REA initiated work in this field. To protect loan security, REA works with borrowers which, for the most part, have had little past experience in operating modern telephone systems.

REA has no field offices. Relations with borrowers are maintained through offices in Washington and a staff of field employees working directly with borrowers.

Available funds and man-years 1963 and estimated, 1964 and 1965

Item	Actual, 1963		Estimated, available 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Rural Electrification Administration:						
Salaries and expenses	$10,355,300	943	$11,149,000	953	$11,518,000	968
Loan authorizations:						
Rural electrification [1]	400,000,000		425,000,000		365,000,000	
Rural telephone	80,000,000		70,000,000		63,000,000	
Total, agricultural appropriation bill	490,355,300	943	506,149,000	953	439,518,000	968
Other funds:						
Assistance to ARA program (Department of Commerce)	338,261	28	350,000	28	356,000	28
Assistance to AID program (Department of State)	30,000	2	30,610	2	31,335	2
Miscellaneous reimbursement	31,380	1	10,000		10,000	
Total, other funds	399,641	31	390,610	30	397,335	30
Total, Rural Electrification Administration	490,754,941	974	506,539,610	983	439,915,335	998

[1] Includes contingency reserve authorization as follows: 1963, $100,000,000 for electrification or telephone loans; 1964, $150,000,000 for electrification loans; and 1965, $65,000,000 for electrification or telephone loans.

Loan Authorizations

(a) Loan authorizations

	Loan authorizations	Estimated loans
Electrification loans:		
Appropriation Act, 1964 (authorization to borrow from the Secretary of the Treasury)	[1] $425,000,000	[2] $300,000,000
Budget estimate, 1965	[3] 365,000,000	[2] 300,000,000
Decrease	−60,000,000	
Telephone loans:		
Appropriation Act, 1964 (authorization to borrow from the Secretary of the Treasury	$70,000,000	[2] $90,000,000
Budget estimate, 1965	[3] 63,000,000	[2] 85,000,000
Decrease	−7,000,000	−5,000,000

[1] The 1964 Appropriation Act provides that $150,000,000 of the $425,000,000 electric authorization be placed in reserve to be used to the extent needed for the electrification program.

[2] In addition to new loan authorization, rescissions of prior year loans and balances carried over from prior years are available for loans.

[3] Includes a proposed reserve authorization of $65,000,000 for use in either the electrification or telephone loan program.

Project statement (on basis of loan authorizations)

By project	1963	1964	Decrease	1965 (estimated)
Rural electrification loans	[1]$400,000,000	$425,000,000	−$60,000,000	$365,000,000
Rural telephone loans	80,000,000	70,000,000	−7,000,000	63,000,000
Total loan authorizations	480,000,000	495,000,000	−67,000,000	428,000,000

[1] The 1963 Appropriation Act provided that $100,000,000 of the $400,000,000 electric loan authorization be placed in reserve to be used to the extent needed for either the electric or telephone loan programs.

The following project statement reflects loans made in 1963 and estimated loans to be approved in 1964 and 1965 from new loan authorizations, balances carried forward, and rescissions of prior year loans:

Project statement (on basis of estimated loans)

By project	1963	1964 estimate	Decrease	1965 estimate
1. Rural electrification loans	$341,021,500	$300,000,000		$300,000,000
2. Rural telephone loans	86,257,000	90,000,000	−$5,000,000	85,000,000
Total estimated loans	427,278,500	390,000,000	−5,000,000	385,000,000

EXPLANATION OF ESTIMATES

Rural electrification loans.—A regular loan authorization of $300 million-plus a reserve loan authorization of $65 million, to be available as needed for use in either the electrification or telephone loan program, is requested for fiscal year 1965. The availability of $365 million for electric loans will aid in negotiating satisfactory power purchase arrangements in many areas where power supply is known to be an active issue, with the result that actual loans for fiscal year 1965 can likely be held to about $300 million.

In helping REA borrowers to meet their needs it is expected that there will be more than $650 million in loan applications under consideration during the fiscal year 1965.

Of the $300 million loans estimated to be approved, it is expected that approximately $138 million will be loaned for distribution, $160 million for generation and transmission, and $2 million for consumer financing under the provisions of section 5 of the act.

The need for adequate loan funds for generation and transmission loans is strongly supported by the heavily increasing need for electric energy. The Federal Power Commission has recently published an advisory committee report which predicts that electric energy requirements of the Nation's electric utilities will increase from 761,380 million kilowatt-hours in 1960 to 2,692,650 million kilowatt-hours in 1980, an average annual rate of increase of about 6½ percent. This is consistent with REA projections of future electric power requirements of REA-financed borrowers, which are expected to increase at an average annual rate of slightly more than 6 percent during the same period.

To meet their needs REA-financed systems were generating only about 1 percent of the installed capacity of the electric utility industry at the end of fiscal year 1963, a percentage which is almost unchanged since 1960, and have been generating only about 17.6 percent of their energy, less than half as much as they have been purchasing from the power companies. The availability of generation and transmission loans has had a great impact in obtaining reasonable contract terms and in holding down the cost of purchased power.

Requirements of REA borrowers for distribution and section 5 loans have been relatively constant in recent years and are expected to continue at about the same level. REA borrowers added 142,000 consumers to their lines during fiscal year 1963, and are expected to continue to add consumers annually at about this same rate.

Rural telephone loans.—The loan estimate of $85 million contemplates a small reduction in loans below the level of recent years. Since there is expected to be a carryover of about $22 million of unused funds from the fiscal year 1964 a new loan authorization of $63 million will be required.

The number of subscribers being served by REA borrowers has regularly been increasing by more that 100,000 per year, and this is expected to continue. In addition, there is a rapidly developing demand for a grade of service better than the old eight-party line. This has led REA to recommend four-party flat rate rural service as the preferred standard, and in response to the demand, many borrowers are forecasting and developing systems to provide one- and two-party graded service in rural areas. The requirement of more funds for upgrading service is expected to lead to an increase in the submission of loan applications in 1964 and 1965 as compared to the previous 2 years.

The annual loan level of $85 million for fiscal year 1965 anticipates that there will be approximately $158 million in loan applications for consideration during the year. Loan applications pending at the close of the fiscal year 1965 are expected to total about $83 million.

ELECTRIFICATION LOANS

	1963 actual	1964 estimate	1965 estimate
Loan funds available:			
New loan authorization:			
Regular	$300,000,000	$275,000,000	$300,000,000
Reserve	[1] 100,000,000	150,000,000	[2] 65,000,000
Carryover from prior year	23,185,628	8,765,002	2,765,002
Rescissions of prior year loans	1,600,874	19,000,000	----------
Total available	424,786,502	452,765,002	367,765,002
Less:			
Loans approved:			
Distribution	155,411,913	138,000,000	138,000,000
Generation and transmission	183,357,087	160,000,000	160,000,000
Consumer facility (sec. 5)	2,242,500	2,000,000	2,000,000
Total loans approved	341,021,500	300,000,000	300,000,000
Reserve not used	75,000,000	150,000,000	65,000,000
Balance to next year	8,765,002	2,765,002	2,765,002

[1] The 1963 Appropriation Act provides that $100,000,000 of the $400,000,000 electrification authorization be placed in reserve to be used to the extent needed for either the electrification or telephone program.

[2] The reserve authorization of $65,000,000 is proposed for use in either the electrification or telephone loan program.

Telephone loans

	1963 actual	1964 estimate	1965 estimate
Loan funds available:			
New loan authorization:			
Regular	$80,000,000	$70,000,000	$63,000,000
Reserve	(1)	----------	(1)
Carryover from prior year	42,701,631	40,743,732	22,743,732
Recissions of prior year loans	4,299,101	2,000,000	----------
Total available	127,000,732	112,743,732	85,743,732
Less: Loans approved	86,257,000	90,000,000	85,000,000
Balance to next year	40,743,732	22,743,732	743,732

[1] The reserve authorization, shown in the table for the electrification program, is proposed for use in either the electrification or telephone loan program.

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	8,226	8,781	9,156
	Positions other than permanent	42	45	45
	Other personnel compensation	9	78	48
	Total personnel compensation	8,277	8,904	9,249
12	Personnel benefits	612	659	685
21	Travel and transportation of persons	934	1,086	1,076
22	Transportation of things	23	25	25
23	Rent, communications, and utilities	148	150	150
24	Printing and reproduction	123	124	124
25	Other services	28	24	24
	Services of other agencies	62	72	72
26	Supplies and materials	49	50	50
31	Equipment	56	55	58
42	Insurance claims and indemnities			5
	Total obligations	10,312	11,149	11,518

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,017	1,040	1,068
Full-time equivalent of other positions	3	3	3
Average number of all employees	943	953	968
Employees in permanent positions, end of year	961	988	988
Employees in other positions, end of year	5	7	7
Average GS grade	9.7	9.7	9.7
Average GS salary	$8,890	$9,445	$9,526

(*b*) *Salaries and expenses*

Appropriation act, 1964	$11,247,000
Activities transferred in the 1965 estimates to—	
"Salaries and expenses, Office of the Inspector General"	−96,000
"Salaries and expenses, Office of Management Services"	−2,000
Base for 1965	11,149,000
Budget estimate, 1965	11,518,000
Increase	+369,000

SUMMARY OF INCREASES, 1965

To strengthen engineering activities in the electrification program	+127,000
For increased pay act costs (Public Law 87–793)	+242,000
Net increase	+369,000

Project statement

Project	1963	1964 (estimated)	Increases		1965 (estimated)
			Increased pay costs (Public Law 87-793)	Other	
1. Administration of rural electrification program:					
(a) Lending and management activities	$3,103,430	$3,326,300	+$76,000	----------	$3,402,300
(b) Engineering activities	2,386,935	2,838,700	+70,000	$127,000	3,035,700
Total, administration of electrification program	5,490,365	6,165,000	+146,000	+127,000	6,438,000
2. Administration of rural telephone program:					
(a) Lending and management activities	2,445,285	2,515,000	+49,500	----------	2,564,500
(b) Engineering activities	2,376,300	2,469,000	+46,500	----------	2,515,500
Total, administration of telephone program	4,821,585	4,984,000	+96,000	----------	5,080,000
Unobligated balance	43,350	----------	----------	----------	----------
Total increased pay act costs (Public Law 87-793)	(----------)	(224,000)	(+242,000)	(+4,800)	(470,800)
Total, available or estimate	10,355,300	11,149,000	+242,000	+127,000	11,518,000

Mr. WHITTEN. We shall be glad to hear your general statement at this time, Mr. Clapp.

GENERAL STATEMENT OF THE ADMINISTRATOR

Mr. CLAPP. Mr. Chairman, it is a pleasure to come before your committee again. For the record, I would like to introduce these gentlemen who are here with me. Mr. George Herzog, our budget officer, and Mr. David Askegaard, who is our program analyst, and Mr. Koebel, of the General Counsel's Office, is also with us, and, of course, Mr. Grant.

ELECTRIC LOAN PROGRAM

I would like to summarize as concisely as I can, Mr. Chairman, the justification for the budget recommendations. In the budget it has been recommended that a loan authorization be provided for the electric loans which would provide for an estimated need of $300 million for fiscal 1965, and a $65 million contingency or reserve fund which will be available for any unexpected needs in either the telephone or electric program. The estimated need, $300 million for electric loans, is made up of an estimated need of $138 million for distribution system loans, $160 million for generation and transmission loans, and $2 million for section 5 loans. With this $365 million recommended as an authorization for the electric program and a $2,765,002 estimated carryover from fiscal 1964, we would anticipate having a total available for lending in the electric program of $367,765,002.

FISCAL 1965 REQUEST COMPARED WITH 1963 AND 1964

I might call the committee's attention to just one or two comparative figures, using fiscal 1963, fiscal 1964, and the proposed budget for

fiscal 1965. In fiscal year 1963 we had available for electric loans $424,786,502; the total availability provided for fiscal year 1964, which includes a carryover of $8,765,002; and estimated recissions of $19 million, would be $452,765,002; the total availability which the proposed budget would provide would be an estimated $367,765,002.

Now, this means that comparing the proposed authorization for 1965 with the authorization for fiscal 1964, the regular authorization and the reserve taken together is $60 million less than the two taken together in the present fiscal year. The total availability, because of the rather substantial rescission in this present fiscal year, is actually $85 million under the total availability for fiscal 1964. Loans approved in fiscal 1963, totaled $341 million. It is anticipated that we will approve loans totaling $300 million this year and the budget approval is based upon an anticipated need and loan approval of $300 million for fiscal 1965.

ELECTRIC LOAN APPLICATIONS

Now, this estimated need for $300 million worth of loan funds for the electric program is based on the expectation that we will have for consideration electric applications in excess of $650 million in fiscal 1965. We expect to start the fiscal year with $254.4 million of applitions on hand; we expect to receive $450 million worth of applications; we expect in the course of normal cancellations that approximately $40 million worth will be canceled or withdrawn; which adds to a total of $664.4 million.

With the $300 million anticipated loan program for the fiscal year, this would mean we would have on hand at the end of fiscal year 1965 a total of applications in the amount of $364.4 million.

I might point out to the committee that in this present fiscal year the rate of applications received has been running somewhat behind the anticipated level, but it is so close to the estimate that if we should receive one or two large G. & T. applications, it would close this gap very quickly.

As of the end of January, we had on hand applications in a total amount of $272,235,000; $79,246,000 was the total of distribution applications; $78,108,000 was the total of generation applications; $112,558,000 was the total of transmission applications; and $2,323,000 was the total of section 5 loan applications. The generation and transmission loan program of REA has been a heavy requirement of past loan budgets. This, of course, is due to the fact that the use of electricity is rapidly increasing in the Nation generally and it is expected to increase very substantially in the future.

HEAVY INCREASE IN USE OF ELECTRICITY

The Nation as a whole used 761,380 million kilowatt-hours in 1960. This is expected to increase to 2,692,650 million kilowatt-hours by 1980. That is an increase of over three times. This amounts to an average annual rate of increase of about 6.5 percent.

Now consistent with the projected requirements of REA financed systems, which are expected to increase at an average annual rate of slightly more than 6 percent during the same period, we can anticipate that there is going to be continued need for new sources of generation.

The availability of $365 million for the electric lending program this year, I am sure, will enable us to make significant strides toward meeting the requirements. The availability of the $65 million over and above what we actually anticipate to be the firm needs of the program will be both helpful and prudent in our efforts to assist rural electric systems in negotiating satisfactory power purchase arrangements in many areas where power supply needs are known to be an active issue.

We hope that just the fact that this additional contingency fund is available will in itself diminish the need for using it.

SECTION 5 LOAN PROGRAM

I would like to say just a word about the section 5 loan program. Although this has been the subject of much discussion, I think the committee will be interested to know that the total amount of section 5 loans has actually been decreasing over the years. The high point was back in 1957. In that year section 5 loans amounted to $5.3 million. This declined in subsequent years to $2 million in 1960, $2.1 million in 1961, $2.2 million in 1962, and $2.2 million in 1963. In the present fiscal year, 1964, we have made only one section 5 loan totaling $110,000. This is the one loan approved for the co-op in Pennsylvania to assist in the financing of the Blue Knob ski resort.

This drastic curtailment of section 5 lending this year is due to the fact that we have been shaping up a policy bulletin which would incorporate and be responsive to the recommendations of both the House and Senate Committees on Appropriations with respect to certifying the necessity of section 5 loans.

Mr. Chairman, I have a copy of that bulletin with me, which I will offer for the record if you desire in a moment when I discuss these other bulletins that are also responsive to the committee's recommendations. I merely want to point out, because I know this is a concern of the committee, that we have been holding a very tight rein on section 5 loans. We have been giving all of the assistance that we can to those borrowers who are interested in local development projects to find the financing through other sources. And on the so-called RAD type loan, we have not made these loans at any time when this financing was available from other sources. On the conventional type section 5 loan—and this is something we have been working with in formulating the bulletin which is now out on our new section 5 loan policies—we have been inclined to, and our policy has been to take the word of the local borrower, the board of directors of the electric system that we make the loan to, as to the necessity of this type of credit for house wiring, appliance financing through the dealers, and other power use purposes.

The effect of this bulletin, which we have now issued, will be to apply the same rigid standards on the availability of capital for these purposes from other sources that we have been applying from the start to the RAD type section 5 loans.

In the present budget recommendation it is anticipated and specified that we would expect to use approximately $2 million for section 5 loans in fiscal year 1965. This, as I indicated, is approximately the level that these loans have been held to in the last 5 years.

TELEPHONE LOAN PROGRAM

Now if I may pass on to the telephone budget request, the loan funds required here are based on an estimated loan program of $85 million for fiscal year 1965. This is a reduction of $5 million from the estimated loan program for telephone purposes this current fiscal year.

To provide for the $85 million loan program, it is expected that we would have available a new authorization of $63 million, which is $7 million less than the authorization for fiscal year 1964, and a carryover of $22.7 million from funds that will be unused at the end of the present fiscal year.

SYSTEM IMPROVEMENTS IN TELEPHONE PROGRAM

The committee may be interested to know that about 30 percent of the telephone loans we have made since the beginning of this fiscal year have been for system improvements. We are finding in the telephone program a development similar to what was encountered in the electric program in earlier years. The initial job is always, of course, getting out to the unserved rural people with some kind of service, and then after this is done, the job begins of heavying up the system to take care of increased electric demands. We are finding a similar increased demand for higher grade service now in the telephone program.

We started out in the telephone program with a basic standard of eight parties to a line for rural multiparty service. Now many systems are moving to our new recommended service of four or five parties to the line, and with the increased use of the telephone, it is readily understood why this is becoming necessary.

It is estimated that with modern dial service, the rural people are using the telephone three times as often as they formerly did. So this means if you have 8 parties on a line today, they are actually using that line more of the time than 20 parties used the old service.

TELEPHONE APPLICATIONS

To give you some quick comparison, we expect to have for consideration in fiscal year 1965 applications totaling $158 million. This is a $10 million increase over the total applications we expect to have for consideration this fiscal year and it is a $28.5 million increase over the applications we had for consideration in 1963. I think this is a reflection of the increased demand for better service—going back to use an electric term in the telephone program—for heavying up the basic system. Seventy-six percent of the farms are now served with some kind of telephone service in the country; 91 percent of this service is dial service. This is a very rough estimate, but about a half million farms are served by systems financed by REA. The number of subscribers being served by REA borrowers are increasing by something in excess of 100,000 a year and this is expected to continue. And as I say, there is an increasing demand for upgraded service.

CONTINGENCY FUNDS

I mentioned the $65 million reserve or contingency authorization. As the committee is aware, the language of the contingency fund is

somewhat different for fiscal year 1965. Instead of being made available exclusively for the electric program as is the case with the $150 million contingency fund for fiscal year 1964 the $65 million for fiscal year 1965 would be available for unexpected needs in either the telephone or electric program.

I would like at this point, Mr. Chairman, to submit for the record three bulletins which we have recently issued.

PROVISIONS OF HOUSE AND SENATE REPORTS ON 1964 APPROPRIATIONS

Mr. WHITTEN. Prior to that, Mr. Clapp, I would like for you to include the language of the House, Senate, and conference reports. Then tell the committee what action you have taken. Present this in such a manner that anyone reading the record will know the circumstances behind it. There was some difference in the House language and the Senate report. The House conferees made that clear in the conference report.

(Pertinent provisions of the reports follow:)

EXCERPTS FROM HOUSE REPORT ON H.R. 6754, 1964 APPROPRIATIONS BILL

A majority of the members of the committee believe the right to make loans for power generation and transmission purposes with funds available to implement such right, if necessary, is absolutely essential to enable REA cooperatives to obtain reasonable contracts from private power suppliers with regard to rates, terms, and conditions. However, a study of the Rural Electrification Act and its history clearly shows it was never intended that this authority be used except for substantial reasons, and not merely to supplant private suppliers.

The committee had testimony from many witnesses on all sides of this issue. With regard to several loans it appears that satisfactory concessions or modifications might have been secured from the private suppliers if real efforts had been made. With regard to others, reasons given for granting loans do not appear too substantial. On the other hand, the requirement of a dual rate by the private supplier, whereby a high rate is charged for increased quantities of power for the purpose of cutting off prospective customers in areas served by co-ops, appears unjustified and is an invitation for electric cooperatives to seek generation and transmission loans.

In some instances, figures presented to the committee as to cost of power and other terms of contracts between some cooperatives and private companies differ somewhat. The committee has had no opportunity nor means to determine which may be correct. With regard to some contracts, the private suppliers seem to have offered little assurance of providing for increased future power needs of cooperatives on a firm basis or providing delivery points necessary to the economical operation of the cooperatives involved.

Before public funds are loaned for power generation or transmission, a majority of the committee believes the REA Administrator, in connection with any such loan, should make a survey, determine wherein the existing contract for power or the proposed contract is unreasonable, advise the supplier wherein such contract is unreasonable and attempt to get such contract modified to make it reasonable. Loans should be made only when reasonable contracts cannot be obtained.

With regard to any further generation and transmission loan approved, the Administrator should certify to the Secretary of Agriculture that each of these steps has been taken and that the private supplier had been given an opportunity to make the contract reasonable, specifying the details, and had refused or failed to do so.

The committee believes the Administrator has the obligation to make certain that section 5 loans are handled on a sound basis. The Rural Electrification Act provides that loans under section 5 shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be paid within the time agreed.

It is the opinion of the majority of the members of the committee that the Congress in providing for section 5 loans intended also that they should not

be made where local private business can meet the need or where it is determined that the local borrower will provide unnecessary competition. The Administrator should also certify to the Secretary as to the necessity for section 5 loans.

The committee has provided funds for additional employees for the coming year under the REA administrative appropriation to implement the surveys, audits, and supervision called for in these areas.

EXCERPTS FROM SENATE REPORT ON H.R. 6754, 1964 APPROPRIATIONS BILL

During the course of the hearings this year, the committee had presented to it' as it has in the past, widely divergent views with respect to REA loans for generation and transmission facilities.

As previously stated, this committee believes that both the rural electric cooperatives and the private power companies who furnish most of the supply of energy needed to serve the electric cooperatives are here to stay and they should make every effort to enter into earnest negotiations in reaching power supply contracts because it is to the mutual advantage of the cooperatives and the private companies to enter into satisfactory power supply arrangements.

The committee recognizes that the House recommended a new procedure for REA after hearing the differing points of view surrounding the loans made by the Rural Electrification Administration for generation and transmission purposes.

This committee concurs with the recommendations set forth in the House committee report, to wit:

Before public funds are loaned for power generation or transmission, the Rural Electrification Administrator, in connection with any such loan, should:

(1) Make a survey and determine wherein the existing contract for power or the proposed contract is unreasonable;

(2) Advise the supplier wherein such contract is unreasonable; and

(3) Attempt to get such contract modified to make it reasonable.

Loans should be made only when reasonable contracts cannot be obtained.

With regard to any further generation and major transmission loan approved in excess of $2 million, the Administrator shall certify to the Secretary of Agriculture, the Comptroller General, and the Congress, that each of these steps has been taken and that the private supplier had been given an opportunity to make the contract reasonable, specifying the details, and had refused or failed to do so.

The Administrator also shall furnish the Comptroller General and the Congress on the date of approval of each such loan application, the following information:

(1) The name and address of the applicant borrower and the date of the application.

(2) Description and estimated cost of the proposed generation facilities. Indicate if the proposed facilities are the initial or additional unit or units of a plant comprised of one or more units.

(3) Description and estimated cost of proposed transmission facilities, including any immediate or future plans to interconnect with other transmission systems.

(4) Description of any long-range plans the applicant may have for construction of additional generation and transmission facilities and the estimated cost of the planned facilities.

(5) Comparison of the estimated costs of generation by the applicant borrower with the cost of power available from existing suppliers, including the final offer by the private supplier including terms and conditions he offered to meet applicant's long-term energy needs.

(6) Summary of the efforts made by the applicant and by REA to obtain the applicant's power and energy requirements from existing power suppliers and the reasons why such efforts have not been successful.

(7) Explanation of the applicant's reasons for seeking an REA loan.

(8) The amount of electric energy which the applicant will cease to purchase from present power suppliers upon construction of the generating plant for which REA financing is being sought.

(9) Explanation of the extent to which the feasibility of the requested loans for generation and transmission facilities depends upon the use of a portion of the facilities by others (including Federal power marketing agencies).

(10) Details of the applicant's plans to sell or otherwise make available any of the power and energy from the proposed generation facilities to others (including Federal power marketing agencies).

(11) Names of State agencies and commissions having jurisdiction over the applicant borrowers.

With respect to each generation and transmission loan application, processed by REA in accordance with the foregoing procedures, the Administrator should, in order to avoid dilatory tactics or protracted delays on the part of either party in such negotiations, establish a publicly announced period of time during which the survey, determinations, and negotiations will be carried on prior to a definite cutoff date set by the Administrator.

The committee is opposed to the imposition of dual rates in power supply contracts and believes that the cooperatives should state their needs clearly and concretely, and that the suppliers of power should in turn clearly set forth the terms and conditions of power supply contracts.

The committee expects the Administrator to examine into all complaints which may come to his attention concerning territorial disputes between REA cooperatives and commercial power companies, except in States having adequate statutory provisions for determining territorial and service rights, and report to the committee in January of each year the salient facts involved, the disposition of the complaints, and the basis for such dispositions.

The committee instructs the Administrator of REA to report to both the Senate and House Appropriations Committees in writing 60 days in advance of approving allocations of funds for acquiring or building generating plants of over $2 million and major transmission lines and such other information as the committee may request.

The committee concurs in the recommendations in the House committee report that the Administrator of REA should not make section V loans in competition with private sources of credit, or as a replacement or substitution for loan funds available under the Area Redevelopment Act, Public Law 87–27. Such loans should be very limited. The committee requests the Administrator of REA to provide it with a summary of pending section V loan applications as well as a copy of his certification to the Secretary on the necessity for making these loans.

CONFERENCE REPORT ON H.R. 6754, 1964 APPROPRIATIONS BILL

Amendment No. 37.—Salaries and expenses: Appropriates $11,247,000 instead of $11,162,000 as proposed by the House and $11,287,000 as proposed by the Senate. Regulations including changes, to carry out provisions in the reports of the House and Senate committees shall be printed in the Federal Register within 90 days of enactment of this act.

The managers on the part of the House disagree with the statements in the Senate report on pages 28 and 29 which require the Administrator (1) to certify to the Comptroller General and the Congress and (2) to give notice of applications to the committees 60 days in advance of approval. They agree that any REA cooperative which is an applicant for a generation or transmission loan shall be made a party to any subsequent negotiations between the Administrator and the power supplier on contract arrangements.

Mr. CLAPP. I might briefly summarize at this time. The House committee last year, in its report, made certain recommendations with respect to our procedures on generation and transmission loans and section 5 loans. With respect to generation and transmission loans, it directed that we should make a survey before loaning any further funds for these purposes and that in cases where there were existing or proposed contracts we should, if these contracts are deemed unreasonable, be sure to give the supplier a statement as to the particulars in which we regarded them as unreasonable, give the supplier an opportunity and assist him in any way we could to make them reasonable, and make the loan only if he neglected or failed or refused to do so. We were also directed to certify to the Secretary of Agriculture in connection with any future generation or transmission loans, that the survey had been made and that these steps had been followed.

ACTIONS TAKEN BY REA PURSUANT TO HOUSE AND SENATE REPORTS

Bulletin 111–3, which was issued February 24, outlines the procedures and policies which we now follow in response to this language

of the House committee and also in response to language of the Senate committee generally endorsing the House language and adding certain procedures with respect to generation and transmission loans of over $2 million.

Briefly, this bulletin provides that we do not make any generation or transmission loan without making the survey as recommended by the committee. And we make the certification to the Secretary, when such a loan is made, that the survey has been made and that the loan is necessary, based upon our normal criteria for generation and transmission loans, either because it is needed to construct facilities to implement an existing contract, or a proposed contract with an existing power supplier, or because it is needed to provide facilities or service for which there is no existing or proposed contract from any other power supplier, or in the case of the type of situation specifically spelled out by the committee language, where there are existing contracts or proposed contracts which we have regarded as unreasonable; that we have in the course of the survey advised the supplier in what way these contracts or proposals are unreasonable, and given the supplier an opportunity to make them reasonable; and that the loan is made and is necessary because in spite of these efforts the contracts or proposals have not in fact been made reasonable.

In connection with the generation and transmission loans of over $2 million, to which the Senate committee addressed its report, we make a more detailed certification which is supplied to the Comptroller General and the Senate and the House of Representatives as directed by these respective bodies. This not only certifies to the fact the survey has been made, but it also supplies information in response to 11 specific questions set forth in the committee report.

The second bulletin, 20–2, is a revision of an existing bulletin on electric loan policies for section 4 loans, which contains new procedures pertaining to notification to the committees of Congress and also notification of those loan applications which are closed without loan. We have three directives from the Senate committee with respect to this type of notification. One is contained in the Senate report accompanying the Agricultural Appropriation Act of 1948, and this directs us to notify the Appropriations Committees of both Houses at least 30 days in advance before a loan for generation is made.

In 1961, in the Senate committee's report accompanying the Agricultural Appropriations Act of 1962, the committee asked us to notify it of loans made for generation and transmission. Then in the report accompanying the Agricultural Appropriation Act of 1964, they directed us to notify the Appropriations Committees of both Houses 60 days in advance of making any loans for generation and transmission of more than $2 million.

Now, this bulletin is responsive to these directions and provides that this notification shall be made subject to the wishes of the respective House. In view of the fact that the statement of the House managers, accompanying the conference report on the Appropriations Act of 1964, disagreed with this requirement of notification as well as the requirement of certification to the Comptroller General, and the Houses of Congress on the larger loans, we have framed our regulations so the information is available to the Houses as they shall so direct.

The third bulletin deals with section 5 loan policy. This is responsive to language in the reports of both the House and the Senate

committees directing us to be sure that no section 5 loans are made which are in competition with existing sources of credit and directing that we certify to the Secretary of Agriculture in the case of these loans, where they are made, that they are necessary. The bulletin as issued today is a revision of the previous bulletin relating to section 5 financing. It tightens the requirements with respect to proof of the lack of availability of this financing from other sources and provides for the certification of the necessity of these loans when they are made in a form of certification to the Secretary of Agriculture.

This, Mr. Chairman, I think summarizes the purpose and the nature of these responses to the committee language.

(The following was submitted for the record:)

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION,
February 24, 1964.

REA BULLETIN 111–3

Subject: Power supply surveys.

I. *Purpose.*—This bulletin sets forth REA policy with regard to power supply surveys and certifications thereto by the Administrator in relation to the approval of loans for generation or transmission facilities.

II. *General.*—The terms and conditions of power supply arrangements are major and critical factors in the ability of REA borrowers to carry forward the rural electrification program. REA has the responsibility to assist borrowers in achieving the most advantageous power supply arrangements to accomplish the objectives of the Rural Electrification Act and, without prejudice to the accomplishment of these objectives, to conserve REA loan funds. REA will undertake power supply surveys to assure adequate review of existing and proposed power supply alternatives and to encourage closer cooperation between REA borrowers and other electric power suppliers.

III. *Policy.*—

A. Requests for power supply surveys: Any REA borrower or potential borrower may request REA to make a survey of any specific power supply problem or its power supply needs. Such request shall provide a full description of existing power supply contracts and arrangements, a statement of any special problems, and a general summary of power supply needs, copies of any proposals made by existing or other suppliers, and a summary of negotiations pertaining to current or anticipated problems and needs. Distribution-type systems should submit such request and information to the area office; power-type systems should submit such request and information to the Power Supply Division.

B. Conduct of survey: If the Administrator determines to undertake the requested power supply survey, the survey shall be so conducted as to provide an adequate review of the applicant's power supply problems and needs, existing or proposed power supply arrangements, if any, and such other potential power supply arrangements which, in the judgment of the Administrator, may contribute to the solution of those problems and needs. Where the Administrator finds existing or proposed contracts with power suppliers are unreasonable for purposes of the Rural Electrification Act, the supplier under such contracts or proposals will be advised wherein they are unreasonable, and REA will endeavor to have the contracts or proposals made reasonable. The REA borrower or potential borrower shall be made a party to any negotiations between REA and such power supplier. When necessary to avoid dilatory tactics or protracted delays, the Administrator shall advise the parties in such cases of a definite time limit for negotiations under the survey and a final cut-off date for all proposals which are to be considered in evaluation of loan applications related to the problems and needs covered by the survey.

C. Requirement for consideration of loan application: No loans for generation or transmission facilities will be made until a power supply survey has been completed by REA. No application for financing of generation or transmission facilities requiring a loan for either or both in an amount of more than $2 million will be accepted for consideration by REA unless (*a*) a power supply survey has been completed, or (*b*) it is determined by the Administrator that completion of the survey requires full review of proposed REA-financed generation or transmission facilities.

D. Certification of loans for generation or transmission: No loan for generation or transmission facilities will be made except in compliance with bulletin 20–6, "Loans for Generation and Transmission," dated May 31, 1961, and upon certification by the Administrator to the Secretary of Agriculture that the loan has been approved after the completion of a power supply survey which shows that the loan is (*a*) needed to construct facilities to implement an existing contract or a proposed contract with the existing power supplier; or (*b*) needed to provide facilities or service for which there is no existing or proposed contract from any other power supplier; or (*c*) needed because existing and proposed contracts to provide the facilities or service to be financed were found to be unreasonable, each supplier involved was so advised, REA attempted to have such contracts made reasonable, and the existing or other proposed suppliers had failed or refused to do so within the time set by the Administrator. Loans for generation or transmission facilities of more than $2 million shall be similarly certified to the Comptroller General. They shall also be certified to the Senate and the House of Representatives of the United States, as directed by the respective bodies. Certification of each generation or transmission loan in excess of $2 million shall be accompanied by the following information:

1. The name and address of the applicant borrower and the date of the application.
2. Description and estimated cost of the proposed generation facilities. Indicate if the proposed facilities are the initial or additional unit or units of a plant comprised of one or more units.
3. Description and estimated cost of proposed transmission facilities, including any immediate or future plans to interconnect with other transmission systems.
4. Description of any long-range plans the applicant may have for construction of additional generation and transmission facilities and the estimated cost of the planned facilities.
5. Comparison of the estimated costs of generation by the applicant borrower with the cost of power available from existing suppliers, including the final offer by the private supplier including terms and conditions he offered to meet applicant's long-term energy needs.
6. Summary of the efforts made by the applicant and by REA to obtain the applicant's power and energy requirements from existing power suppliers and the reasons why such efforts have not been successful.
7. Explanation of the applicant's reasons for seeking an REA loan.
8. The amount of electric energy which the applicant will cease to purchase from present power suppliers upon construction of the generating plant for which REA financing is being sought.
9. Explanation of the extent to which the feasibility of the requested loan for generation and transmission facilities depends upon the use of a portion of the facilities by others (including Federal power marketing agencies).
10. Details of the applicant's plans to sell or otherwise make available any of the power and energy from the proposed generation facilities to others (including Federal power marketing agencies).
11. Names of State agencies and commissions having jurisdiction over the applicant borrowers.

NORMAN M. CLAPP, *Administrator.*

Index: Generation facilities: Power supply surveys; Loans: Power supply surveys; transmission facilities: Power supply surveys.

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION,
February 28, 1964.

REVISION OF REA BULLETIN 20–2

Attached is a revised REA Bulletin 20–2, "Electric Loan Policy for Section 4 Loans."

This revision incorporates power supply survey policy relating to the acceptance for consideration by REA of loan applications for generation or transmission in excess of $2 million. It also incorporates procedures relating to notifications to Appropriations Committees of the U.S. Senate and House of Representatives of receipt of loan applications for generation or transmission purposes, notifications

to the Appropriations Committee of the Senate of actions taken on such applications, and procedures for applications closed without loan.

This revised bulletin supersedes REA Bulletin 20–2 dated July 18, 1962.

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION,
February 28, 1964.

(Supersedes July 18, 1962)

REA BULLETIN 20–2

Subject: Electric loan policy for section 4 loans.

I. *Purpose.*—To express Rural Electrification Administration policy concerning loans under section 4 of the Rural Electrification Act.

II. *Section 4 of the Rural Electrification Act.*—This section provides in part:

A. "The Administrator is authorized * * * to make loans for rural electrification to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts and cooperative, nonprofit, or limited-dividend associations organized under the laws of any State or Territory of the United States; for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service * * *"

B. "* * * the Administrator, in making such loans shall give preference to States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts, and cooperative, nonprofit, or limited-dividend associations, the projects of which comply with the requirements of this Act."

C. "Such loans shall be on such terms and conditions relating to the expenditure of the moneys loaned and the security therefor as the Administrator shall determine and may be made payable in whole or in part out of the income: *Provided further,* That all such loans shall be self-liquidating within a period of not to exceed thirty-five years, and shall bear interest at the rate of 2 per centum per annum * * *"

D. "Loans under this section * * * shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed."

E. "* * * no loan for the construction, operation, or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained."

III. *Definition of rural area.*—Section 13 of the act provides in part that: "As used in this Act the term 'rural area' shall be deemed to mean any area of the United States not included within the boundaries of any city, village, or borough having a population in excess of fifteen hundred inhabitants, and such term shall be deemed to include both the farm and nonfarm population thereof * * *".

IV. *General policy.*—

A. To facilitate borrowers' financial and system planning loans will be made as promptly as possible within the availability of loan funds, consistent with the provisions of the Rural Electrification Act and the policies and statements of loan purposes set forth herein.

B. In accordance with the objectives of the act and the obligations undertaken in the loan contract, borrowers are strongly urged to provide electric service on an area coverage basis to the maximum extent possible.

C. Loan applications for distribution facilities generally should be based on the amount of new loan funds required during the next 2 years to enable a borrower to construct adequate facilities in an effective and efficient manner. However, loan applications for distribution, transmission, or generation facilities may be based on estimates of loan fund requirements for more than 2 years where necessary to assure the availability of essential facilities.

D. In reviewing loan applications, the amount and management of a borrower's general funds will be considered by REA on the basis of the guidelines contained in REA Bulletin 1–7. A loan application must be supported by a detailed analysis of general funds clearly justifying the amount and form of its deposits and investments where (1) a borrower has general funds exceeding 20 percent of total plant; or (2) a borrower has more than one-fourth of its general funds deposited or invested other than as recommended in REA Bulletin 1–7; or (3) the borrower is specifically requested to provide such an analysis.

V. *Purposes for which loans may be made.*—Loans may be made for:

A. Distribution facilities: To finance the construction of new rural distribution facilities or systems and the net cost of system improvements to meet load growth requirements or improve the quality of electric service.

1. Net cost of system improvements: Net cost of system improvements means the cost of construction plus the cost of removal of any property retired, less the salvage value of any materials or equipment recovered in connection with the property retirement. System improvements for this purpose are defined as changes or additions in facilities necessary to improve the quality of service or to increase the quantity of power available to Rural Electrification Act beneficiaries. Changes or additions as used in the above definition include replacing units with like units and rearranging, resagging, or retiring conductor when such changes are associated with and are a necessary part of a system improvement project.

B. Generation and transmission facilities: To finance the construction of new or additional generation and transmission facilities (REA Bulletin 20–6) under the following conditions:

1. Where no adequate and dependable source of power is available to meet the consumers' needs, or

2. Where the rates offered by existing power sources would result in a higher cost of power for the consumers than the cost from facilities financed by REA, or

3. Where such facilities are necessary to protect the security and effectiveness of REA-financed systems.

C. Headquarters facilities: To finance the purchase, remodeling, or construction and related costs of headquarters facilities required for the operation of the borrower's system. (REA Bulletin 86–3.)

D. Acquisitions: To finance the purchase, rehabilitation, and integration of existing electric facilities where the acquisition of such facilities is an incidental and necessary means of providing service to persons in rural areas who are not receiving central station service. (REA Bulletin 27–1.)

E. General plant equipment: To finance the purchase of office, transportation, communication, and working equipment.

F. Interest: To provide funds from which payments of interest may be made during the period preceding the first scheduled principal payment or for a period not to exceed 5 years, whichever is the shorter, if requested by the borrower and found necessary. (REA Bulletin 20–7.)

G. Operations: To provide working capital required for initial operations of the borrower's system or where required for the protection of outstanding REA loans.

H. Ordinary replacements: To finance the excess of the total cost of ordinary replacements over the original cost of the production, transmission, or distribution plant being replaced. For this purpose "ordinary replacements" means replacing units of such plant with like or similar units made necessary by normal wear and tear, and obsolescence of the facilities. In order to qualify as an ordinary replacement, the replacement must involve one or more complete "retirement units" as identified in REA Bulletin 181–2, "Standard List of Retirement Units."

I. Reimbursement of general funds: As a prerequisite to REA consideration of a loan for reimbursement of general funds, borrowers will be required to establish that:

1. The expenditures were for a purpose for which the Administrator is authorized to make loans; and

2. The general plan or program of the borrower for expansion of its system is known to REA; and

3. The expenditures were for purposes within the borrower's power under applicable statutes, corporation articles, and bylaws; and

4. All necessary approvals have been obtained from members, directors or commissions; and

5. The borrower has received prior REA approval for such expenditure as required by REA Bulletin 103–2.

Specific cases: Proposals for reimbursement of general funds that fall outside the criteria set forth above may be submitted to REA for consideration on an individual basis.

VI. *Loan conditions.*—

A. Interest payments: Interest payments will be required in accordance with the terms of the note, bond, or other evidence of debt. On loans made in accordance with REA Bulletin 20–7 interest is due and payable quarterly as it accrues.

B. Scheduled principal payments: Principal payments are due in accordance with the terms of the note, bond, or other evidence of debt. On loans made in accordance with REA Bulletin 20–7 principal payments generally will begin 3 years from the date of the note, but may begin at a later date if there is a demonstrated need. Repayment of principal may be scheduled to begin earlier if the borrower desires or if required by REA. Notes providing funds for the acquisition of facilities already in revenue-producing status generally will require that principal payments begin within a year from the date of the note.

C. Advance payments: Payments in advance of the scheduled due date may be made by borrowers at any time. All or any portion of the amount in the advance payment account may be applied to maturing installments of interest or principal or to the principal balance of any note. An interest credit is allowed on the advance payments and this credit is applied as a deduction from the interest due on notes. Where the full installment is paid, an amount equal to the interest credit is added to the advance payment account. (REA Bulletin 180–1.)

D. Lien on borrower's system: A first lien on the borrower's total system normally will be required. It shall be in the form of a mortgage by the borrower to the Government or a deed of trust made by and between the borrower and a trustee, satisfactory to the Administrator. Where a borrower is unable by reason of preexisting encumbrances, or otherwise, to furnish a first mortgage lien on its entire system the Administrator may, if he determines such security to be reasonably adequate and the form and nature thereof otherwise appropriate, accept other forms of security.

E. Other conditions: The loan contract, and mortgage or deed of trust, will include such conditions as are necessary to loan security.

VII. *Application procedures.*—

A. Prior to preparation of an application, a distribution-type applicant should notify the area operations field representative of its intention to apply for a loan and secure from him the necessary instructions and application forms. A power-type applicant should notify the Power Supply Division, Washington office, of its intention to apply for a loan and obtain from that office the necessary instructions and application forms. REA operations and engineering field representatives are available to advise and assist applicants in the preparation of loan applications. Applications from distribution-type applicants are to be reviewed by the operations field representative, prior to transmittal to the Washington office.

B. No application for financing of generation or transmission facilities requiring a loan for either or both in an amount of more than $2 million will be accepted for consideration by REA unless (a) a power supply survey has been completed by REA, or (b) it is determined by the Administrator that completion of the survey requires full review of proposed REA-financed generation or transmission facilities. (REA Bulletin 111–3.)

VIII. *Information pertaining to loan applications.*—

A. General procedure relating to the furnishing of information pertaining to loan applications, by the applicant and REA, is provided in REA Bulletin 20–12 ("Electric").

B. The Appropriations Committees of the U.S. Senate and House of Representatives, as directed by the respective bodies, will be informed by REA of requests for loan funds for acquiring or constructing generating facilities. No such request will be approved unless such notification concerning the request has been furnished the committees in writing at least 30 days in advance of the approval. (See also par. C below.)

C. The Appropriations Committees of the U.S. Senate and House of Representatives, as directed by the respective bodies, will be informed of requests for loan funds for acquiring or constructing transmission facilities, or generation and transmission facilities, in excess of $2 million. No request for loan funds for either or both in the amount of over $2 million will be approved unless such notification concerning the request has been furnished the committees in writing at least 60 days in advance of the approval.

IX. *Notifications of loans.*—The Committee on Appropriations of the U.S. Senate will be notified of the amount and purpose of each generation and major transmission loan approved by REA.

X. *Applications closed without loans.*—If REA determines a loan application need not or cannot be processed for loan approval, or the applicant withdraws or cancels the application, the loan application shall be considered "closed without loan" and removed from official records of pending loan applications. The loan

applicant, and the Committee on Appropriations of the U.S. Senate in all instances in which it has been notified of the request for funds, will be notified accordingly.

NORMAN M. CLAPP, *Administrator.*

Index: Distribution facilities; loan applications for; generation facilities; loan applications for; loans, applications for section 4 policy.

U.S. DEPARTMENT OF AGRICULTURE, RURAL ELECTRIFICATION ADMINISTRATION

REVISION OF REA BULLETIN 24-1 (ELECTRIC)

REVISION OF REA BULLETIN 821-1 (RAD)

Attached is a revised Bulletin 24–1: 821–1, "Electric Loan Policy for Section 5 Loans."

The principal revisions are:

(1) Provision for submission of detailed information establishing that the requested loan will not be in competition with private sources of credit or a substitution for other programs of Federal financing. This information is required by REA to make the determinations and certification as to the necessity for making the loan, as provided in reports of the Appropriations Committees of the U.S. Senate and the House of Representatives.

(2) Remittance to REA of all collections of principal and of interest on section 5 loans used for loans to commercial or industrial consumers, as received by the borrower. This provision will clearly establish that the REA borrower has not retained any amount which it collects as interest on such loans in excess of the interest which it pays to REA.

(3) Notifications of the receipt of section 5 loan applications, and of applications closed without loan will be furnished to the Committee on Appropriations of the U.S. Senate.

Amendments issued to the previous bulletin have been incorporated in the body of the bulletin, along with information previously furnished loan applicants in individual letters. Some of the material has been rearranged so that provisions applicable to the REA section 5 loan procedure have been separated from the provisions applicable to the borrower's consumer loan procedure. Other changes consistent with the above have been included in the bulletin. Any necessary accounting instructions will be issued in the accounting series.

U.S. DEPARTMENT OF AGRICULTURE, RURAL ELECTRIFICATION ADMINISTRATION

REA BULLETIN 24–1

REA BULLETIN 821–1

Subject: Electric loan policy for section 5 loans.

I. *Purpose.*—To set forth policy and procedure concerning loans made under section 5 of the Rural Electrification Act, as amended.

II. *General policy and procedure for section 5 loans.*—

A. Loan purposes:

1. The Rural Electrification Administration will make loans as authorized by section 5 of the Rural Electrification Act of 1936, as amended, within the availability of loan funds, to eligible borrowers as defined below for the purpose of financing the wiring of premises and the acquisition and installation of electrical and plumbing appliances and equipment, including machinery, for persons in rural areas receiving or about to receive electric service from such eligible borrowers.

2. The basic purposes of this financing are to enable eligible borrowers to help their consumers make full use of electricity; to achieve maximum utilization of REA financed facilities; and to strengthen the security of REA loans.

3. Appliances and equipment eligible for financing:

(*a*) Except as excluded in section 4 below, section 5 loan funds may be used to finance the purchase and installation of:

(1) Wiring or rewiring and lighting fixtures.

(2) Water pumps, plumbing, and plumbing appliances and equipment.

(3) Electrical household appliances and equipment including radio and television installations.

(4) Electrical farm equipment for drying, curing, grading, handling, and storage of farm products; dairying, brooding; ventilating; farm shops; and for other farm production.

(5) Heat pumps and other electrical house heating and air-conditioning units, associated wiring, protective and control equipment.

(6) Electrically driven irrigation pumps, pump columns, associated wiring, protective and control equipment.

(7) Electrical equipment including machinery for agricultural, commercial, and industrial enterprises.

For financing the acquisition and installation of electrical and plumbing appliances, machinery, or other equipment, other than indicated above, prior approval must be obtained from REA.

(*b*) Manufactured wiring, plumbing, and electrical equipment including machinery shall meet the minimum requirements established by local authorities, State health departments and recognized national organizations, such as the American Standards Association, the National Bureau of Standards, and the National Fire Protective Association (National Electrical Code) and shall be approved by recognized national testing organizations, such as the Underwriters' Laboratories.

(*c*) REA does not maintain an approved list of appliances or equipment, including machinery.

4. Section 5 funds may not be used for loans for financing:

(*a*) Wiring, plumbing or electrical equipment, including machinery.

(1) previously financed or for which arrangements for financing have previously been made;

(2) to be used by newspapers, book or magazine publishers, radio or television broadcasters, or other enterprises engaged in molding public opinion;

(3) known to impair service on rural electric systems, or to be inconsistent with good operating practices;

(4) designed for operation by other than electric power or with heat or energy source other than electrical.

(*b*) Well casings and the digging, drilling, or redrilling of wells.

(*c*) Sprinkler irrigation main line pipe, lateral pipe, couplings, nozzles, and accessories, or irrigation ditches.

(*d*) Insulation and weatherproofing.

(*e*) The "pirating" of a commercial or industrial consumer from one area to another.

(*f*) Merchandising operations: Section 5 loans shall not be used to finance merchandising operations, such as: (1) the purchase and stocking of merchandise for resale, (2) the sale of merchandise on consignment, (3) lot purchases of merchandise from dealers, distributors, or manufacturers for resale.

Borrowers engaging in merchandising operations may use section 5 loan funds for consumer financing on the same basis as such loan funds are made available by them to other dealers.

B. Loan terms:

1. Loans will generally be made for a period of 10 years. Interest at the rate of 2 percent per annum shall be due and payable annually on October 31, as it accrues. Advance payments on principal may be made at any time. Principal payments are due and payable as follows:

(*a*) Section 5 loans used for individual farm or residential consumers: The principal shall become due and payable on the maturity date of the note. For any consumer loan in excess of $2,500, borrowers may be required to remit all collections of principal and of interest on such consumer obligations to REA as received.

Borrowers are urged to plan for such payment by anticipating the amount of cash that will be available for this purpose.

(*b*) Section 5 loans used for commercial or industrial consumers: Borrowers shall remit all collections of principal and of interest on such consumer obligations to REA as received. When the note to REA is retired, the remittance will be applied against other section 5 notes, or against other indebtedness to REA, or as an advance payment. In making payments, the borrower shall identify the loan account number so that the payment may be appropriately applied.

2. The provisions of this bulletin regarding loan terms are not retroactive.

C. Amount of loan:

1. The amount of a section 5 loan to be used for individual farm and residential consumers should not exceed the estimated amount needed by the borrower to finance such consumer loans for the 2-year period following the date of the loan. Generally, this amount should not exceed $100,000.

2. The amount of a section 5 loan to be used for a commercial or industrial consumer shall be based on the needs in the individual case.

D. Eligible borrowers: Section 5 loans may be made only to borrowers of funds loaned for electric facilities under the provisions of section 4 of the Rural Electrification Act which (1) are authorized under applicable State laws to finance consumer loans and (2) have demonstrated the need for such funds. Loans will not not be made in competition with private sources of credit or as a substitution for loan funds available under other Federal programs. REA will not approve the use of section 5 funds where the necessary financing is available from other sources.

E. Loan security:

1. The security for the section 5 loan will consist of all assets of the electric borrower as provided under the REA mortgage. REA will ascertain that the electric borrower will be able to meet all of its Government and non-Government obligations.

2. In special cases REA may require as a loan condition that the consumer obligations be assigned to the Government. In such cases, the borrower will be advised of the special REA procedures and requirements involved. Consumer obligations executed under section 5 loans approved prior to September 13, 1957 will continue to be assigned.

3. The loan documents and complete instructions concerning their execution will be forwarded to the borrower. Among other provisions, loan documents will provide that:

(*a*) The Administrator may require at any time the assignment to the Government of all consumer obligations executed under section 5 loans when, in his judgment, such assignment is necessary for loan security.

(*b*) The Administrator may require the borrower to pay to the Government any sums held by the borrower in its "cash-installation loan and collection fund" at any time he determines such payment is necessary to protect the Government's interest.

(*c*) Consumer obligations executed under section 5 loans shall not be sold by the borrower or otherwise negotiated at less than full value. If sold, REA shall be notified.

F. Procedure for applying for a section 5 loan:

1. REA assistance in the preparation of section 5 loan applications will be provided borrowers on request. REA rural areas development representatives are available to assist borrowers in planning, organizing, and evaluating proposed loans for commercial or industrial consumers.

2. Where a borrower is contemplating two or more loans, each in excess of $2,500, for commercial or industrial consumers, a separate section 5 loan application should be submitted for each of the proposed consumer loans. REA may combine these separate applications into a single application for processing if it appears advantageous to do so.

3. The section 5 loan application for a proposed commercial or industrial consumer loan should not exceed the estimated amount of the proposed consumer loan by more than 15 percent. Depending on the firmness of the estimates, the excess will be limited to an amount that will cover reasonable differences between estimated and actual costs.

4. The section 5 loan application should consist of a letter of application and a certified copy of a board resolution supporting the loan and stating the amount of loan requested. (See sample resolution attached.)

(*a*) Where a borrower requests a section 5 loan for use by a commercial or industrial consumer, the data required for approval of the consumer loan must be submitted with the section 5 loan application. (See sec. III, E, 2.)

(*b*) Where a borrower requests a section 5 loan for use by individual farm or residential consumers, the letter of application should explain the need for the loan, the general purposes for which the loan will be used, and state the rate of interest the electric borrower intends to charge on consumer loans. The letter should also include:

(1) Evidence that the necessary credit is not available in the area to finance the wiring of premises and the acquisition and installation of

electrical and plumbing appliances and equipment for the electric borrowers' members. This shall consist of:

(*a*) A written statement summarizing the terms and conditions under which credit, if any, is available to the borrower's consumers. The statement should describe the credit in terms of any limits on the amount which will be financed, the percentage of the installed cost which will be financed, the term for which the financing is available, the repayment period, the interest and other charges associated with the credit, and any other pertinent facts.

(*b*) Written statements from at least two banks or other sources of consumer credit outlining the terms and conditions under which they will provide such credit. These may be local institutions or those within a reasonable distance of the area which are authorized under State and Federal laws to provide such financing.

(*c*) A written statement from one or more appliance dealers evaluating the need for credit in the area.

(2) When circumstances indicate the need for a section 5 loan in excess of $100,000, the information on which the estimate of need is based should be included.

(3) If it is known that the loan will be used to make a consumer loan in excess of $2,500, requests for approval of such loan or loans may be submitted with the section 5 application. (See sec. III, E, 1.)

G. Procedure for requisitioning loan funds and reporting on their use:

1. All borrowers shall use REA form 133 in requisitioning advances and reporting on the use of loan funds. This form will be furnished by REA and must be completed and submitted quarterly as long as there remains unpaid principal on any section 5 loan.

2. For loans in excess of $2,500 for commercial or industrial consumers, advances will be made against the note covering the loan which provided funds for the consumer involved. Funds will not be advanced on account of any such loan until the borrower has complied with the conditions set forth in the letter from REA approving the consumer loan. Generally, this data should be submitted with the REA forms 133 requesting advances for such consumer loan.

H. Expenditure of loan funds: Unless otherwise authorized by REA, section 5 loan funds shall be expended by the electric borrower only in payment on behalf of the consumer to a contractor or supplier, for eligible items of wiring, plumbing, or electrical equipment or appliances, including machinery.

1. No payment should be made to a contractor or supplier on financing on behalf of a farm or residential consumer until a properly executed conditional sale contract has been received.

2. No payment should be made to a contractor or supplier on behalf of a commercial or industrial consumer loan until properly executed conditional sale contracts or REA approved security documents have been received.

I. Special accounts:

1. Advances on loans approved prior to September 13, 1957, shall be deposited in a trust account entitled "Cash-REA Installation Loan Fund." Payments received on consumer loans made from such REA loan funds shall be deposited in a trust account entitled "Cash-Installation Loan Payment," and remitted to REA in accordance with the terms of the loan contract and note.

2. Advances on section 5 loans approved on or after September 13, 1957, shall be deposited in a trust account entitled, "Cash-Installation Loan and Collection Fund." Principal and interest payments received on consumer loans made with such REA funds and any proceeds from the sale of consumer obligations by the borrower shall also be deposited in this trust account. Unless otherwise directed by REA in accordance with section II, B, 1, a and b, and II, E, 3, b of this bulletin, all funds in this account, other than interest collections, shall be available to finance consumer loans.

III. *General policy and procedure for consumer loans.*—

A. Amount:

1. It is recommended that the amount of the consumer loans not exceed 80 percent of the installed cost of the wiring, plumbing or electrical equipment being financed; in no event shall it exceed 90 percent.

2. All consumer loans in excess of $2,500 require prior REA approval.

B. Terms:

1. Four percent interest per annum on the current unpaid balance of the loan is generally considered appropriate. Use of a different interest rate must be justified.

2. The terms and conditions of such loans shall be in compliance with regulations of the Federal and State agencies governing consumer financing and credit transactions.

3. Consumer payments on such loans should be on a monthly, quarterly, semiannual, or annual basis.

C. Conditional sale obligation forms and security documents:

1. Borrowers are required to obtan adequate security for the consumer loan when financing is on other than a conditional sale basis.

2. Prior REA approval must be given to the use of any consumer obligation forms other than REA forms 134 and 135. Samples of these forms are attached to be reproduced by the borrower for its use.

(*a*) REA form 134—Wiring and plumbing conditional sale contract: This form of contract (without recourse to the dealer) is to be used for financing wiring and plumbing installations including lighting and plumbing fixtures. It must be executed in triplicate, one copy each for the borrower, consumer, and contractor.

(*b*) REA form 135—Conditional sale contract: This form of contract (with recourse) is to be used for financing the purchase and installation of electrical appliances and equipment, including machinery, and must be endorsed on a recourse basis by the dealer. It must be executed in triplicate, one copy each for the borrower, consumer and dealer.

3. The borrower's attorney is required to review all consumer obligation forms, including REA forms 134 and 135, for suitability and compliance with State laws prior to their use by the borrower.

4. The borrower should obtain advice of its attorney with respect to compliance with State laws as to filing or recording of the consumer obligations involved.

D. Credit committee: The board of directors shall set up a credit committee of not less than three members, a majority of whom shall be members of the board. The success of the program rests to a large extent with the credit committee. The committee shall:

1. Review each consumer loan in excess of $2,500 and recommend board action.

2. Review and take action on each individual nonrecourse conditional sale contract.

3. Review the financial standing of each appliance and equipment dealer signing recourse conditional sale contracts and report its findings to the board. A maximum total value of recourse contracts to be purchased by the borrower should be definitely established for each dealer and reviewed periodically.

E. Procedure for obtaining approval of consumer loan:

In requesting approval of consumer loans in excess of $2,500, the electric borrower should provide REA with the information considered by its credit committee and board of directors in giving tentative approval to the proposed financing. This should include:

1. Loan to individual farm or residential consumer:

(*a*) The name, address, and nature of operations of the consumer.

(*b*) The amount of the proposed consumer loan.

(*c*) The type and proposed use of the electrical appliance, equipment or machinery to be financed.

(*d*) The terms (including loan period, percent of cost to be financed, rate of interest, terms of repayment).

(*e*) Proposed forms of loan and security documents.

(*f*) The basis on which it was determined that the necessary credit is not available from other sources.

2. Loan to commercial or industrial consumer:

(*a*) Name and address of consumer.

(*b*) Location of site at which equipment will be used.

(*c*) Kind of business organization and ownership.

(*d*) Amount of proposed consumer loan.

(*e*) Terms of financing (including percent of installed cost of equipment to be financed, rate of interest, and terms of payment).

(*f*) Description of the equipment to be financed including size, type, unit price, manufacturer, and the electrical features of the equipment.

(*g*) Written evidence that the necessary financing for the equipment is not available from private sources or under other Federal programs. This should be in the form of letters of declination identifying the loan requested, by amount, and giving the reasons for the declination, including any alternate

financing terms offered. At a minimum, the consumer should make application to the following sources:

(1) Two banks or other commercial lenders. When the financial data of the consumer applicant indicates that financing might be available from large lenders outside of the area, REA will assist the borrower and the consumer in seeking such financing.

(2) The Small Business Administration, except in those cases where the section 5 funds will be used in connection with an Area Redevelopment Administration project. SBA is a normal source of financing for small profitmaking businesses when private financing is not available.

(3) The Area Redevelopment Administration when the consumer is located in an ARA designated area.

(4) The appropriate Bank for Cooperatives when the consumer is a farmer cooperative.

(*h*) Total cost of the undertaking (amount for land, buildings, equipment, working capital, etc.) and the sources and terms of other financing involved.

(*i*) Revenue and expense statement showing the applicant's projected revenues, principal items of expense, and cash margins available to meet its obligations, estimated as of the end of the first year the equipment is in use. The statement should be sufficiently detailed so that its completeness may be judged. It should be accompanied by a statement of anticipated outstanding indebtedness and terms of repayment.

(*j*) Recent balance sheet, and profit and loss statement for the preceding 3 years (or for as many years as the business has been in operation, if less than 3 years) when financing is for an existing business.

(*k*) Information concerning the present and potential market for the product, proposed marketing arrangements and the effect of the planned enterprise on existing businesses.

(*l*) Management experience of applicant.

(*m*) Proposed loan and security documents, completed to the point where where they are ready for execution.

(*n*) Comments of the electric borrower's credit committee covering its appraisal of the undertaking and of the projected income and expense statement, quality of management, and probable success of the undertaking.

(*o*) Anticipated kilowatt-hour sales and annual revenue to the electric borrower from the sale of electricity to this consumer. Any other benefits to the electric borrower's members or to the community which are expected to result from the financing.

(*p*) Number of present employees of consumer. Estimated number of persons to be employed by the consumer at the end of the first year of operation. Total number of employees anticipated.

F. Use of general funds for consumer financing:

If a borrower uses part of its general funds to finance consumer loans, it is recommended that the policy and procedures herein be adhered to. General funds so used and subsequent collections thereof are not to be commingled in depository or ledger accounts with funds from REA section 5 loans.

In the event a borrower is considering the possibility of using general funds in a rural areas development project, it should submit the proposal to REA for advice and consultation. The services of the Rural Areas Development staff, including technical and marketing assistance as well as information on other possible credit sources, are available. See REA bulletins 1–7 and 800–3 before committing the use of general funds for these purposes.

IV. *Notification and certifications.*—

A. The Committee on Appropriations of the U.S. Senate will be notified of requests for section 5 loan funds.

B. When a section 5 loan is made, the Administrator will certify to the Secretary of Agriculture the necessity for making the loan. The Committee on Appropriations of the U.S. Senate will be furnished a copy of such certification.

V. *Applications closed without loan.*—If REA determines a loan application need not or cannot be processed for loan approval, or the applicant withdraws or cancels the application, the loan application shall be considered "closed without loan" and removed from official records of pending loan applications. The loan applicant and the Committee on Appropriations of the U.S. Senate will be notified accordingly.

——— ———, *Administrator.*

Attachments: Sample Board resolution.

SAMPLE BOARD RESOLUTION

Resolved, That the president, secretary, and treasurer of the borrower, and each of them (with full power to act without the others) are hereby authorized and directed to execute and forward to the Rural Electrification Administration an application for a section 5 loan in the approximate amount of $_____ for the purpose of financing the wiring of premises and the acquisition and installation of electrical and plumbing appliances and equipment.

Resolved, That said officers, and each of them, are further authorized and directed on behalf of the borrower to take any and all further action which may be necessary to effect such loan.

There has been established a credit committee consisting of not less than three members, a majority of them members of the board. The duty of the committee is to (1) consider each consumer's application for financing on non-recourse conditional sales contracts and each consumer's recourse conditional sale contract for a loan in excess of $2,500 and recommend appropriate board action in regard thereto; (2) review the financial standing of each appliance and equipment dealer; and (3) recommend to the board the total value of recourse contracts to be purchased by the borrower from each such dealer.

CERTIFICATION

I, _____, secretary of the (electric borrower) do hereby certify that the foregoing is a true and correct copy of the minutes of the regular meeting of the board of directors of the (electric borrower) of (State) held this ____ day of (month), 196__, as they appear in the minutes book of the corporation and that they have not been rescinded or modified.

_____
Secretary of
_____

*When the sec. 5 loan will be used for an industrial or commercial consumer, the following paragraph shall be substituted for the third paragraph above:

"This sec. 5 loan will be used to finance a loan for (name of consumer). There has been established a credit committee consisting of not less than three members, a majority of them members of the board. This committee has considered this consumer's application for financing and recommended approval by the board."

Mr. WHITTEN. Thank you, Mr. Clapp. I think we belabored this point last year to the point that we all had some understanding of the other fellow's problems. I don't know that we resolved all of the differences that exist between the private companies and the REA, or between those who feel we may be making loans we should not and those who feel we are not making all we should. Only time will tell whether these efforts at tightening up the regulations will work.

Speaking for myself as chairman, in my opinion, you, as Director, and the REA have in good faith attempted to carry out the intent of the Congress as I understand it. It sounds like your action should solve a lot of the problems we have. I don't mean to repeat, but last year objections were found to quite a number of pending loans and applications, by private companies and others.

LOANS APPROVED DURING LATTER PART OF FISCAL YEAR 1963

Subsequent to our hearings here, I think it would be well for the record to show what action was taken on the ones that were the subject of quite a bit of controversy in our hearings of last year. I also have a question about the number of generation and transmission loans that were approved from the time of our hearings until the first of July, when you were under instructions to go into the type of operations that you have now.

I mention this because I have received several complaints that, just before the beginning of the new fiscal year, many loans were signed or approved in that short interval of time before you came under the instructions of the Congress.

If this is correct, I am sure you have your reasons and you may relate those as well.

(The material requested follows:)

Current status of generation and transmission loan applications which were on hand Mar. 15, 1963, per listing on p. 2551–2552 of pt. 4 of the fiscal year 1964 hearings, with loan approval dates on loans approved

Applicant	Amount of application as of Mar. 15, 1963			Action taken
	Generation	Transmission	Total	
Chugach Electric Association, Inc., Anchorage, Alaska.	$123,000	$287,000	$410,000	The loan was approved June 10, 1963, in the amount of $2,438,000. It included $1,783,492 distribution, $487,985 for transmiss on, and $166,523 for generation facilities. Funds for transmission and the additional funds for generation (for completion of the Stetson Creek diversion dam) were necessary to provide capacity for the existing consumers and the 1690 consumers to be connected with the funds provided in this loan.
Matanuska Electric Association, Inc., Palmer, Alaska.	61,465	----------	----------	The loan was approved May 31, 1963, in the amount of $470,000. It included $378,545 for distribution and the acquisition of facilities, and $91,465 for generation facilities. The loan for 550 killowatts of generation facilities enabled the borrower to adequately serve the 46 consumers acquired and the 103 new consumers in the Talkeetna area.
Craighead Electric Cooperative Corp., Jonesboro, Ark.	----------	407,000	----------	Loan application closed without loan on Apr. 15, 1963. The cooperative's general funds were in excess of guidelines recommended in REA Bulletin 1–7 ,"General Funds," dated Feb. 12, 1962.
Choctawhatchee Electric Cooperative, Inc., DeFuniak Springs, Fla.	1,313,000	797,000	2,110,000	The loan was approved Apr. 18, 1963, to provide funds for facilities needed to furnish electric service to the spadat installation, located in the borrower's service area at the Eglin Air Forc Base, in accordance with the contract for such service, and to meet the cooperative's long-range power requirements. The facilities included a 10-megawatt gas turbine unit, 35 miles of 115-kilovolt transmission line, substation, and related equipment.
Snake River Power Association, Inc., Malta, Idaho.	----------	1,534,000	----------	Closed without loan on Jan. 9, 1964. The extension of the marketing area of the Bonneville Power Administration to cover southern Idaho changed the power supply conditions in the cooperative's area.
Western Illinois Power Cooperative, Camp Point, Ill.	5,990,000	1,850,000	7,840,000	The loan was approved on June 28, 1963, in the amount of $7,807,000, and was based on power cost savings to member cooperatives of approximately $939,200 over the period 1966–75. It included $6,007,000 for a 22-megawatt steam generating plant, and $1,800,000 for 105 miles of 69-kilovolt transmission line, and related facilities.
Wheatland Electric Cooperative, Inc., Scott City, Kans.	----------	1,185,000	----------	The loan was approved June 27, 1963, in the amount of $1,200,000. It included $105,000 for generation and $1,095,000 for transmission facilities. This enabled the borrower to finance a steam boiler and water wells for its existing generation plant. The transmission line was interconnected with Western Light & Telephone Co. facilities near Liberal, Kans., to take care of the cooperative's immediate loads above the present plant capacity.
Louisiana Electric Cooperative, New Roads, La.	25,030,000	28,323,000	53,353,000	Application is still pending. Amount of application revised to $57,000,000 by the cooperative.
The Western Michigan Electric Cooperative, Scottsville, Mich.	----------	210,000	----------	The loan was approved May 14, 1963, for 8 miles of 44 kilovolts transmission line, 2 distribution substations and 1 autotransformer substation. The transmission line was required to interconnect Western Michigan's Star Lake transmission line with Wolverine's Hersey-Hart transmission line, to increase capacity and system reliability.

Current status of generation and transmission loan applications which were on hand Mar. 15, 1963, per listing on p. 2551–2552 of pt. 4 of the fiscal year 1964 hearings, with loan approval dates on loans approved—Continued

Applicant	Amount of application as of Mar. 15, 1963			Action taken
	Generation	Transmission	Total	
United Power Association, Elk River, Minn.	$27,850,000	$13,150,000	$41,000,000	"A" loan of $29,130,000 plus assignment of $10,100,000 ($26,245,000, generation; $12,985,000, transmission) from the Rural Cooperative Power Association, Elk River, was approved on Dec. 5, 1963, and was based on the power cost savings to member cooperatives of approximately $6,754,397 over the period of 1967–72. These funds included $26,245,000 for a 150-milliwatt steam generating plant, and $12,985,000 for 230 miles of 230 kilovolt transmission line, and related facilities.
Cooperative Power Association, Redwood Falls, Minn.	----------	13,050,000	----------	Application is still pending.
Dairyland Electric Cooperative, Inc., Grand Rapids, Minn.	----------	14,000	----------	The loan was approved June 29, 1963, in the amount of $837,000. It included $823,000 for distribution facilities, and $14,000 for the construction of 1.5 miles of 66/22 kilovolts transmission line to serve the Grand Rapids 22–7.2/12.5 kilovolts substation, and an air break switch and metering structure.
Northern Minnesota Power Association, Inc., Grand Rapids, Minn.	----------	18,870,000	----------	Application is still pending. Amount reduced to $13,265,000 by the cooperative.
M & A Electric Power Cooperative, Poplar Bluff, Mo.	----------	3,661,000	----------	The loan was approved June 28, 1963, in the amount of $3,290,000. These funds, with $3,167,507 available from previous loans, were for 38.5 miles of 161 kilovolt and 200 miles of 69 kilovolt transmission line and related facilities, to implement the Associated Electric Cooperative's plan of power supply and meet load growth requirements.
Associated Electric Cooperative, Inc., Springfield, Mo.	30,323,000	----------	----------	The loan was approved June 27, 1963, in the amount of $30,431,000 and was based on the power cost savings to member G. & T. cooperatives of approximately $29,171,300 over the period 1963–75. It included funds for 150,000 kilowatts of steam generating facilities.
North West Electric Power Cooperative, Cameron, Mo.	----------	2,661,000	----------	The loan was approved June 28, 1963, in the amount of $2,662,000 for transmission facilities including 124 miles of transmission line and related facilities necessary to meet system load growth.
Central Electric Power Cooperative, Jefferson City, Mo.	----------	6,525,000	----------	The loan was approved June 28, 1963, in the amount of $7,149,000. Major portion of loan was for 156 miles of 161 kilovolt transmission line required to implement the plan of power supply developed in connection with the loan to the Associated Electric Cooperative, Inc., for generation. Funds were also included for 100 miles of 69 kilovolt transmission line and related facilities required to meet system load growth.
Northeast Missouri Electric Power Cooperative, Palmyra, Mo.	267,000	8,106,000	8,373,000	The loan was approved June 29, 1963, in the amount of $7,777,000. It included $7,562,260 for 95 miles of 161 kilovolts and 223.8 miles of 69 kilovolt transmission line and related facilities to implement the Associated Electric Cooperative's plan of power supply and meet load growth requirements; and $214,740 for generating plant improvements.
Cape Hatteras Electric Membership Corp., Buxton, N.C.	246,000	----------	----------	The loan was approved Mar. 14, 1963, for an internal combustion unit of 1,150 kilowatt capacity and related items to replace old equipment and additional capacity to meet consumer requirements and insure a continued reliable source of power.
Lignite Electric Power Cooperative, Inc., Bismarck, N. Dak.	23,000,000	----------	----------	Closed without loan on Jan. 8, 1964. The withdrawal of 1 member and consideration by the 2 other members of purchasing their immediate supplemental power requirements from other sources changed the power supply conditions in the cooperative's area.

Dakotas Electric Cooperative, Inc., Bismarck, N. Dak.	----------	3, 682, 000	----------	Closed without loan on Jan. 10, 1964, at the request of the cooperative.
Minnkota Power Cooperative, Inc., Grand Forks, N. Dak.	----------	3, 416, 000	----------	The loan was approved June 26, 1963, in the amount of $3,666,000 for 63 miles of 115 kilovolt and 249 miles of 69 kilovolt transmission line and related facilities required to meet system load growth.
Central Electric Power Cooperative, Inc., Cayce, S.C.	27, 500, 000	6, 222, 000	33, 722, 000.	The loan was approved June 27, 1963, in the amount of $32,933,000, and was based on power cost savings to the member cooperatives of approximately $1,843,000 over the period 1964–73. Together with $324,300 available from previous loans, it included $27,620,000 for 150,000 kilowatts of steam generating facilities, and $5,637,300 for 42 miles of 115 kilovolt, 106.8 miles of 69 kilovolt, 63.7 miles of 44 kilovolt, and 23.1 miles of 34.5 kilovolt transmission line, and related facilities.
East River Electric Power Cooperative, Inc., Madison, S. Dak.	----------	2, 484, 000	----------	Application is still pending. Loan application was revised to $4,683,000 by the borrower.
Lighthouse Electric Cooperative, Inc., Floydada, Tex.	----------	120, 401	----------	The loan was approved Apr. 3, 1963, in the amount of $1,025,000. It included $904,599 for distribution, and $120,401 for transmission facilities. The transmission line constructed with funds in this loan provided additional capacity for the Floydada area and made it possible to locate a substation at Dougherty.
Dickens County Electric Cooperative, Inc., Spur, Tex.	----------	107, 000	----------	The loan was approved on May 14, 1963, in the amount of $744,000. It included $637,000 for distribution and $107,000 for transmission facilities. The transmission line for which funds were made available provided a new substation in the Kalgary area to take care of increased load.
Garkane Power Association, Inc., Vernal, Utah.	----------	1, 306, 000	----------	The loan was approved May 29, 1963, in the amount of $2,018,000. It included $715,430 for distribution and $1,302,570 for transmission facilities. The transmission line would enable the cooperative to connect a number of large power loads in its service area and to obtain a power supply from the Bureau of Reclamation for its power requirements above its present generating capacity.

NOTE.—Loans approved Mar. 15, 1963, to June 30, 1963—18.

Mr. WHITTEN. Mr. Clapp, in looking at your justification, I notice that where most of the agencies of the Department are under orders to make rather drastic reductions in total man-years and employees this agency seems to be in for some increase. The man-years in 1963 were 943; 1964, 953; and next year you request 968. I presume that is your employment here in Washington. Is that right, or is that total number of employees?

Mr. CLAPP. That would be total manpower, Mr. Chairman.

Mr. WHITTEN. What is the basis for that increase?

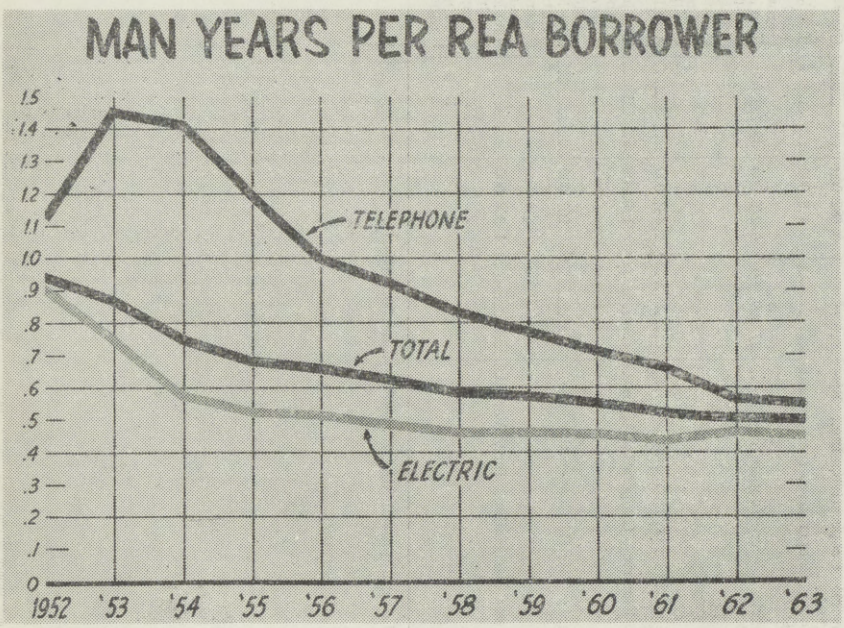
Mr. CLAPP. I think this reflects, Mr. Chairman, the very stringent administrative budget on which REA has been operating over the years.

We have some charts here and there is one that deals with the man-years in REA administrative operations per borrower. As this committee so well knows, REA had only an electric program to administer prior to 1949.

Then the telephone program was added to our responsibilities. The chart up there shows that the man-years per borrower has been cut in half since 1952; it was 0.93 of a man-year in 1952.

It is down now to a half a man-year in 1963. The administrative man-years in the electric program is down from 0.9 in 1952 to 0.45 in 1963. The telephone program is down from 1.13 in 1952 to 0.55 in 1963.

(The chart referred to follows:)



Mr. WHITTEN. Mr. Clapp, I think REA has done a fine job during your administration, and prior to that, so far as keeping your overhead down.

I realize that the Congress insists you give prompt or adequate supervision, and that this requires more attention at the supervisory level. I would point out that you have been in business for years. You have your forms of applications and all of this is stereotyped. So, while on one hand we are asking you to watch it more closely, your forms and all of the procedures should be so stereotyped today; it shouldn't take more manpower. I prefaced my opening statement by saying I think REA has done a fine job in holding down overhead.

Mr. CLAPP. It is true that certain functions do take considerably less time now. But it is likewise true we have taken on new functions. As the chairman will remember last year when this survey process was spoken of, it was fully expected we would need additional manpower to conduct this survey.

The survey unit as set up has now three people in it. We expect it will have five within the next few weeks. It operates primarily by using the manpower of other divisions within the agency, so it is not increasing our administrative personnel by any substantial amounts. But the major requirement has been in additional engineering.

REPAYMENT RECORD OF ELECTRIC BORROWERS

Mr. WHITTEN. Turning to some specific information that we would like, what percentage of the farms are now electrified?

Mr. CLAPP. The percentage of farms electrified is 97.9 percent.

Mr. WHITTEN. Your repayment record, how many borrowers do you have, and what percentage are delinquent?

Mr. CLAPP. We have a thousand borrowers. There is only one borrower—speaking of the electric program now—there is only one borrower in the electric program that has been on the delinquent list as a regular thing. Occasionally we will have one or two temporary additions to this list.

The delinquency of this one borrower is about $55,000. It is being steadily reduced.

Mr. WHITTEN. You had trouble with a borrower in my area at one time. That was a case I had some familiarity with, but I couldn't say whether to make the loan or not. This was a case of the picture changing from the time the application was prepared to when it actually approved. In my opinion the change was caused by many of the customers being drawn off by a private company. In the meantime, due to developments in that section, everybody left the farm and went to the city. Now they are going from the cities back into the rural areas and I think the condition of the REA co-op is now swinging the other way.

It is my recollection that the REA has worked out a solution to that co-op's problem; is that correct?

Mr. CLAPP. Yes. We have no delinquent borrowers in Mississippi, Mr. Chairman.

Mr. WHITTEN. This was on a rather thin basis at the outset, and I so advised the Director at that time. Of course, sitting where I was, and seeing only the figures, I had no personal knowledge of the case. I am glad that worked out.

It always bothers us when we have anything like that, particularly if it is in our own area. Incidentally, they were very fine people.

GENERATION AND TRANSMISSION LOANS

Before I leave that, I think you covered some other questions I had rather fully. What is the occasion for you to group power generation and transmission together in your listing here?

Normally you think of transmission as a heavy line, that carries a load from one distributing point to another, but this is still in the nature of distribution.

Power generation, of course, is a steamplant or other plant where you manufacture or generate electricity. Why are these two grouped and do you have any breakdown to show what part of your loans was for generation and what part was transmission?

Mr. CLAPP. We have those breakdowns. I suppose the grouping historically was based on the fact that generation and transmission both are involved in wholesale power distribution.

But it is true that we finance transmission for distribution cooperatives and the definition of transmission is pretty hazy, sometimes. REA terminology, I think, has historically held that anything of 33,000 volts or higher was considered transmission.

Of course, you will find authorities now that say this is really distribution voltage. I could give you the figures as to the amount of loans made for transmission and the amount for generation.

Mr. WHITTEN. You might supply that for the record and also give us the figure in your estimate for next year broken down in that way.

(The requested information follows:)

Breakdown of loans for generation and transmission purposes

[Millions of dollars]

Fiscal year	Generation	Transmission	Total
1959	30.7	34.1	64.8
1960	60.1	28.9	89.0
1961	77.1	74.8	151.9
1962	98.9	56.4	155.3
1963	114.0	69.4	183.4
1964 (estimated)	95.0	65.0	160.0
1965 (estimated)	95.0	65.0	160.0

Mr. CLAPP. We do have, as a regular thing, substantial amounts of transmission in distribution loans and I have some figures along that line, Mr. Chairman, which I would be glad to submit for the record.

Mr. WHITTEN. Yes; we would be glad to have that.

Mr. CLAPP. I might point out in 1963, one of the figures taken from this table, indicates that for that fiscal year there were 65 distribution loans that included loan dollars for transmission purposes.

The average amount included in these loans for transmission was $263,000.

(The requested information follows:)

Average amounts for transmission purposes which were included in loans to distribution borrowers

Fiscal year	Number	Average for transmission	Fiscal year	Number	Average for transmission
1963	65	$263,000	1959	65	$283,000
1962	59	208,000	1958	97	256,000
1961	65	197,000	1957	78	179,000
1960	67	201,000			

Mr. WHITTEN. Mr. Clapp, I discussed this with you from time to time. I seriously question the wisdom of making power generation loans where current can be acquired from private suppliers, if the sole basis for making the loan feasible is the difference in the Government loan rate of 2 percent and that which private enterprise would have to pay in order to finance private expansion.

Judging by public opinion and the opinions expressed here in Congress, I question the wisdom of it.

That still does not mean the law doesn't authorize it, nor does it mean you shouldn't make it, because as long as you are Administrator, you have the right to exercise your judgment within the law. But have you made any generation loans where it took that difference to made the decision as to whether this loan was feasible or nonfeasible?

Mr. CLAPP. Mr. Chairman, I think that any survey of G. & T. loans, or our generation loans, to answer your question, would probably show that, in the great majority of cases, the interest rate differential is what produces the savings that are computed.

Now I understand your concern.

Mr. WHITTEN. May I interrupt to say this. I would carry it one step further. If this is in a sparsely settled area, and the expected returns from the area are such that it would be hard to amortize a loan, or if the rates that would have to be charged were to the point of being prohibitive, I can see that you might have to look to this to offset other things. On the other hand, if this is in the average area, where the rates don't exceed normal rates by more than 20 or 25 percent I would say it raises a serious question as to the advisability of this practice in the future. You know, if you would give me unlimited 2 percent money, I could probably put the National Bank of Washington out of business since they are probably paying 4 percent on money they have on time deposits. You get into a lot of things here when you deal with 2 percent money. As I have expressed it to you, under your section 5 loans, if I had a cooperative, I would like to borrow $10 or $15 million, on the basis that I could turn right around and lend it for 4 percent. Under present conditions this puts an extremely heavy burden on you and your organization to be careful to see that these applications are sound, that they are in the public interest, and that they are required.

As I said earlier, I think you have done a good job in reducing to writing your regulations in line with the report of the committee.

Do you give any consideration in such cases as to what rates would have been paid to their present supplier? Are they unconscionable or are they just a little higher? Would Government generation give them a windfall or would it just kind of protect them and give them service that they need, but otherwise wouldn't have?

Just how do you approach this in making your decision? I want to say again in my opinion, the law gives you the right to make such loans.

Mr. CLAPP. Mr. Chairman, I would be glad to respond to you.

Mr. WHITTEN. May I say it gives you the power, rather than right.

Mr. CLAPP. We have with us some charts which illustrate the position of these REA-financed systems in the electric industry. If the committee is agreeable, I would like to run through those rapidly. I think this bears upon the question you have raised, Mr. Chairman.

Mr. WHITTEN. We will be glad to have them.

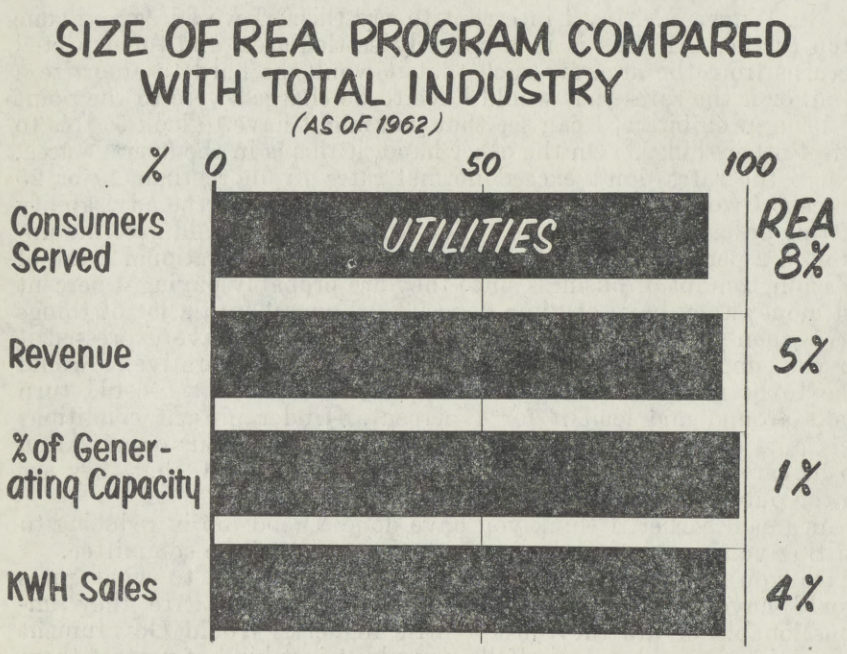
Mr. CLAPP. These are some rather significant figures which show the position and resources of these REA-financed systems.

I think you will find this material is responsive to your question, because it shows first of all the handicaps that these rural systems have in serving sparsely settled areas with the loan characteristics that these areas represent and the need for some kind of equalizers, one of which is the 2 percent interest rate.

COMPARATIVE SIZE OF REA-FINANCED SEGMENT OF ELECTRIC INDUSTRY

Now this first chart shows the comparative size of the REA-financed segment of the electrical industry in terms of total consumers served, in terms of revenue, in terms of generating capacity, and kilowatt-hour sales. The REA-financed systems serve only 8 percent of the consumers served by the industry. They receive only 5 percent of the revenues. They operate only 1 percent of the generating capacity. And they sell only 4 percent of the kilowatt-hours.

(The chart referred to follows:)



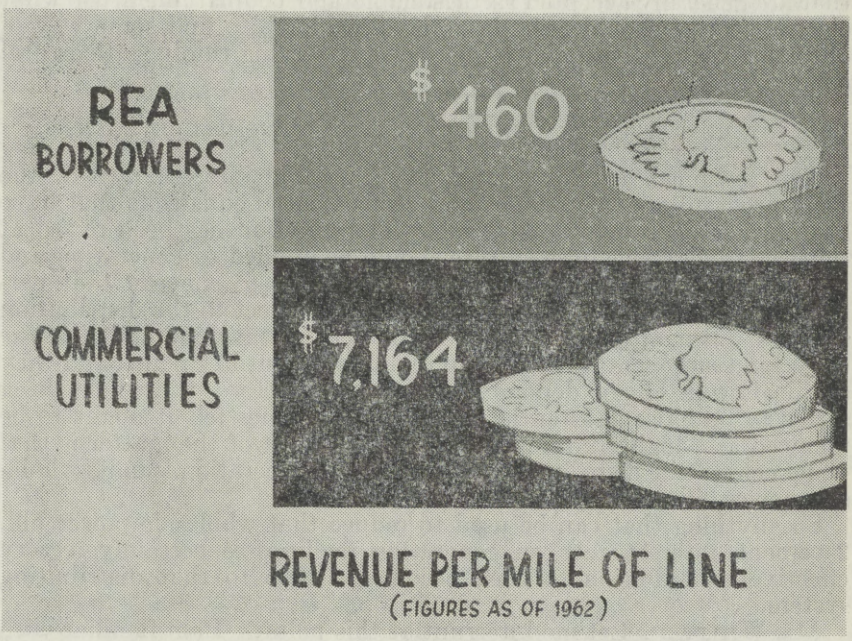
DENSITY AND REVENUE

Next, just to give you an idea of how these systems compare and their areas compare with those of the commercial utilities, this chart shows that on the REA-financed systems, although we have heard a lot about growth in recent years, they still average only 3 3/10 consumers per mile of line. And I use per mile of line, because that is a convenient unit of investment.

SYSTEMS OF REA BORROWERS COMPARED WITH COMMERCIAL UTILITIES

The class A and B commercial utilities have 10 times this density, with 33 3/10 consumers per mile of line. Now if you carry this comparison over to revenue, and this is not net revenue or margin, but gross revenue, annual gross revenue, you see here that the REA borrowers have a gross annual revenue of $460 per mile of line as compared to $7,164 gross annual revenue of the class A and B commercial utilities per mile of line.

(The chart referred to follows:)



Then analyzing the type of load served by the rural systems as compared with the type of load served by the commercial utilities, we see here that the REA-financed system, as would be expected, has 76 1/10 percent of its loan in farm and residential loads; only 19 7/10 percent in commercial loads; and other miscellaneous type loads, 3 9/10 percent.

Now with the commercial utilities, the big segment of their load is is the commercial class. Class A and B commercial utilities, get 51.5 percent of their revenue from commercial loads, 37 3/10 percent from farm and residential loads, and only 11 1/10 percent from the other type loads.

Now this next chart is rather significant, again in terms of ability to serve economically. As the committee is well aware, these rural systems were built to serve rural communities which are essentially farm communities and the users are essentially farm people. This means that their needs for electric power follow the same pattern; their peaks occur generally at the same time. There is a lack of diversity, and a lack of large powerloads on the rural systems. All of this means they operate at a considerably lower load factor than do the normal commercial type utilities that are urban based.

This chart translates this load factor concept into terms of identical buses with different loads; different numbers of passengers. The bus costs the same in either case, but you have fewer passengers and fewer fares, to pay the cost of the capital investment.

Mr. WHITTEN. I thought maybe you meant the electric industry is taking the public for a ride.

Mr. CLAPP. No such implication is intended, Mr. Chairman. But this is a reflection of one of the handicaps of rural systems. This means that if we are going to be able to get electric service to rural people—and we will come back to this chart in just a minute—at rates that are generally accepted as reasonable and comparable with what electric service should cost these days, we have to find some way of offsetting these inescapable higher costs of serving thinly settled rural communities.

INTEREST RATE ON GENERATION AND TRANSMISSION LOANS

The technical assistance and the favorable interest rate of the REA program are the obvious and very essential equalizers that have been provided to help do this job. The question has been raised at times as to why this interest rate should be applied to generation and transmission. I think some people are willing to concede that perhaps this is legitimate as an equalizer with respect to the distribution systems. But after all, the generator is a big machine and it is the same kind of generator in a co-op plant as in a utility plant, and they are dealing in bigger denominations and, therefore, the whole thing seems to be more substantial and it is sometimes felt it ought to be financed at a higher interest rate. But the fact of the matter is that 43 percent of the distribution system's cost of operation is in its wholesale power bill.

So anything that can be used to reduce that wholesale power bill, 2-percent interest rate on generation facilities is certainly a very effective contribution to this, becomes a help to that distribution system.

Mr. WHITTEN. Let me interrupt at this point. I am familiar with the age-old facts here in the Congress with regard to TVA and anti-TVA. For many years I was on the committee dealing with appropriations for the Tennessee Valley Authority. Half of my district is served by a private power and light company, therefore, I had to know all I could about the subject to defend myself from each side. Since the law was passed requiring TVA to sell its bonds and obtain its money from the money markets, there has been a tie-in between the TVA and the private power companies. I believe this is what is called a common grid. No more than I know about it, it becomes easily apparent that if we have our total electric generating capacity

and distribution all tied together, electric power is bound to be far more economical. It would be much more expensive for any separate group to carry peaking capacity for the period when everybody has his lights on, refrigeration and factories are running and many other uses. I have learned enough to know that is bound to be good for the country as a whole in that rates are held down.

OHIO COOPERATIVES WORKING WITH PRIVATE POWER COMPANIES

Now in recent weeks I have been told that the REA systems in Ohio have worked out some plan or are in the process of working out some plan to work with the private power companies in the use of current. Perhaps even to the point of attempting to get additional financing from private borrowing, as opposed to REA financing.

Are you familiar with that, and could you tell us about it?

Mr. CLAPP. Yes, I am familiar with it, Mr. Chairman.

The cooperatives in Ohio are attempting to work out an arrangement with the Ohio Power Co., and the other power companies in the State which would enable the cooperatives to finance with private investment a very large generating plant on the Ohio River. The electric power from this plant would be delivered to the cooperatives under contractual arrangements with the utilities and the Ohio Power Co. would be the market for any excess power that the cooperatives did not need out of this unit.

Now they are making a very serious effort to work this arrangement out subject to their requirements. We are hopeful that they will. We are encouraging them in every way we can. I think one of the significant things about this attempt is that it is a proposal to use the economies of very large generation to offset the other higher expenses of financing through the private money market as compared to REA financing. And this is certainly a sound approach. This plant is so large, you see, that it will take a good many years for the requirements of the co-op to soak up all of the power it will produce.

Mr. WHITTEN. Perhaps the first thought that comes to mind was the same one that arose when we had the problem of whether TVA would sell its bonds with the Government, as a lender, taking a second mortgage. Actually, this meant taking a second position behind the revenue bonds which doubtless would have to be issued if they were to borrow the money. Again I don't know enough to pass judgment on this matter.

Mr. CLAPP. I think it should be pointed out, Mr. Chairman, that this situation is really not typical of the situation of most cooperatives that we deal with. There are factors in this situation that are quite unusual. The cooperatives expect to go into this with a 10-percent equity in this plant. Now this is very low as compared to the normal requirements of private lenders.

Mr. WHITTEN. They would have, however, the contract with the private companines as a thing of value.

Mr. CLAPP. They would have the power sale contracts, and they really have the sponsorship of the Ohio Power Co. and its good reputation in the money market to make this attractive to investors.

RELATIONSHIP BETWEEN BASIN ELECTRIC POWER COOPERATIVE AND UNITED POWER ASSOCIATION

Mr. WHITTEN. Several times I have discussed the efforts of the Administrator to require that a prospective borrower consolidate with an existing borrower in one of the Western States. I wish you would give me a full detailed report on that. We may want further information on this later. I don't know what the facts are.

Mr. CLAPP. You don't want this on the record?

Mr. WHITTEN. I am not trying to keep it off the record. You might tell us the facts, if you wish to. It has been called to my attention that incident to the application of a borrower in one of the Dakotas, the borrower is said to have been required to consolidate with an existing cooperative in the area if it were to succeed in obtaining a loan from the REA.

The effect of that is if it consolidates with the going group, that it would thereby place in a particular company the purchase of tremendous amounts of coal at a reduced price. This would have been at the cost of excluding other competitors in the area who also are interested in selling coal. I have been told that there is no desire on the part of the two cooperatives to so consolidate, but they are being pressured into it in order to be considered favorably for a loan. Are you familiar with that situation and could you tell us about it?

Mr. CLAPP. I have been quite familiar with it, Mr. Chairman, because we have lived with this situation I suppose for 2 years. This has reference to the current relationship between the Basin Electric Power Cooperative at Bismarck, N. Dak., and the United Power Association, Elk River, Minn. We approved a loan to Basin in 1962 to build a steamplant on the lignite fields in North Dakota. This plant will serve almost 100 cooperatives getting their power principally from the Bureau of Reclamation transmission system.

The United Power Association of Minnesota has been in need of some solution to expected power deficiencies. They came in with an application in November of 1962 to build another plant on the lignite fields in North Dakota. They had an arrangement with the utilities whereby they could swap power and thereby avoid the transmission cost of getting power from North Dakota to Minnesota and it was a very, very favorable arrangement from the standpoint of the cooperative. We felt that we could not justify the extra cost of two separate plants both financed by REA less than a half mile apart out there at that location. The two organizations did not want to consolidate as organizations. I am not sure what their preferences would be as to separate plants, although I suspect they would each prefer to have their own separate plant. We, however, persuaded them not to consolidate but to use the same site and build what has been described as a duplex plant, with Basin at one end and United adjacent to it.

Part of the arrangement would be to make available to each, although they are separate organizations, separate managements, the economies that would come from pooling their coal purchases under the Basin coal contract. This way both cooperatives could get the volume price that would come through the pooling of each cooperative's requirements. The North American Coal Co. was a bidder along with another company on the Basin requirements. They were not the low bidder, and Basin signed a contract with the

other company. North American Coal Co. is now negotiating with United and attempting to make an arrangement with United whereby it will supply United's needs at the same price that would be available to United and Basin with the combined pooled purchases. This is primarily a management decision which both United and Basin must make out there. Basin has a contract and is fully committed under the contract. There may be some advantages to both Basin and United in maintaining some competition in the coalfields out there if you look at it from the standpoint of long-range considerations. But there is no attempt to force or to bar North American Coal Co. from dealing with United. The only problem is that under the arrangement which the two parties agreed to, to provide maximum savings to each, Basin stands to be hurt financially if United's coal requirements are taken out of the pooled use under the contract.

Mr. WHITTEN. Mr. Clapp, on that, I am glad to have that information for the record. You can't sit as chairman of this subcommittee without having people discuss these various things with you, and they should. I am glad to discuss these various problems, at any time, and I try to see everybody that wants to see me.

What you have described there bears out the reasons, or supports the reasons I have for not wanting to substitute my position as chairman of this committee for you place as Administrator. That is the reason I have felt that, without an adequate staff of experts, engineers and others, we on this subcommittee are simply not in a position to pass on individual applications. We lack the time, the special training, and the qualifications to do the job.

Notwithstanding that, listening to your presentation of this matter, it does raise in my mind some question as to where the Administrator's obligation, duty, or authority begins and ends. Now, as I listen to you, and again I have had folks talk to me about it and I don't know what the answer is. Apparently you have made loans to separate entities if they will build a plant next to another plant which happens to have a good coal contract, if the price will go down if they can get another customer. This looks like you have made a loan based on a coal contract. I am oversimplifying. But, in other words, the loan to a separate entity is conditioned on whether or not they will put themselves back to back with an existing cooperative but keep them separate, so as to get in on an existing coal contract, because if the existing contract for coal goes up to much higher figures, the price goes down, and they both benefit.

Describing it one way, that is the way it seems to be. Whether that is in line with the obligations, the powers, or the duties of you as Administrator, I don't profess to know, but that seems to be the case. I would raise some question in my own mind as to whether that is not carrying it quite far.

Mr. CLAPP. Of course, our interest in trying to encourage these two cooperative organizations to share what facilities they can was to first of all save about $1,200,000 in initial capital requirements, which the two separate plants would entail, but which could be saved by bringing the two together. In addition to this, there are some operational savings, too, which can come about by their working together in this way. The joint use of the coal contract is the big item under operational savings, but this is not the only one. I would suggest and I have made this suggestion, that North American

Coal people contact the management of both cooperatives out there in North Dakota. I know they are in touch with the United group, because I have understood they have actually made a proposal to United. I think it would be well for them to sit down with the management of Basin, too, and it may be it would be possible to work out some sort of an arrangement that would take care of everybody's long-term interests.

Mr. WHITTEN. I am sure each and every one of these applications creates problems of one kind or another. I interrupted you at the time you were showing the net worth as a percentage of assets.

You might proceed with your statement.

Mr. CLAPP. I would like to just finish those charts, Mr. Chairman.

Mr. HORAN. Following that, could I ask Mr. Clapp just one question? I have to depart early.

Mr. WHITTEN. Surely. Do you wish to go ahead now or wait until he gets through with that?

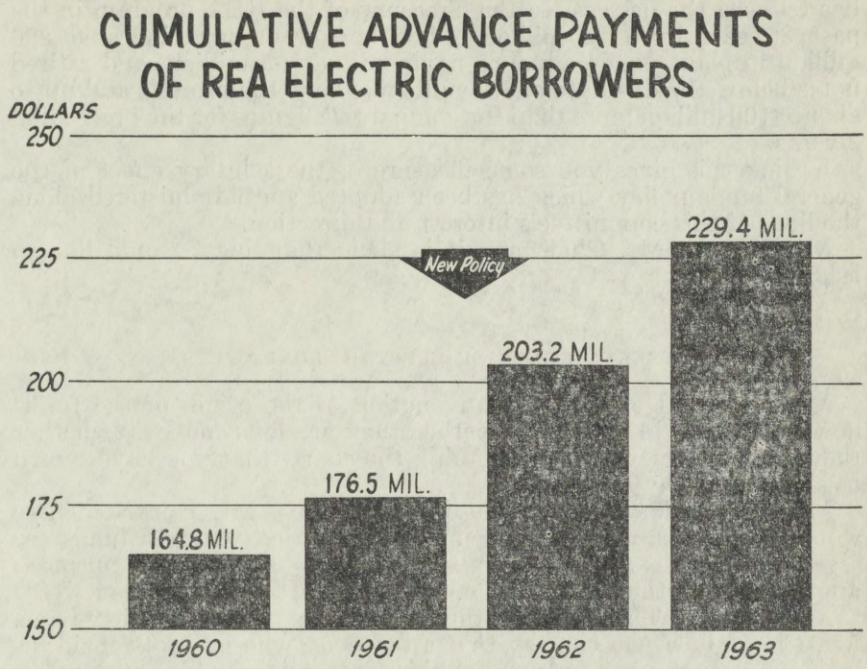
Mr. HORAN. I am enjoying those charts.

Mr. WHITTEN. You might go ahead for a minute.

INCREASE IN NET WORTH OF ELECTRIC BORROWERS

Mr. CLAPP. These charts, Mr. Chairman, I think will illustrate how we are endeavoring to fully harness all of the financial resources that our borrowers have into the aims and purposes of the program. This I know is a subject that the committee is very much interested in and it is a subject that we are interested in and an approach we have given a great deal of attention to. This first chart shows the increase in the net worth of our electric borrowers. In 1952 the net worth was 7.6 percent of assets; in 1963, it is up to 23.7. This is a steady increase and it represents growing strength of these rural systems over the years. Now, the next chart this committee will be vitally interested in, because this reflects some of the effects of the general funds policy which we worked out and announced in 1962 at the behest of this committee. This shows the cumulative advance payments by REA electric borrowers. These are payments that are made in advance of schedule and deposited with the Treasury, sort of as a cushion—in fact, it is called a cushion of credit—to their account.

(The advance payment chart follows:)



Now, you will notice there were some steady increases prior to 1962, but there is a very marked increase in 1962 and then again in 1963.

Mr. WHITTEN. The nudging of this committee along the line of reserves didn't hurt that, did it?

Mr. CLAPP. It helped that considerably. In all justice to the borrowers, it should be said the cooperation we have received under this policy has been very, very remarkable. I am satisfied on the basis of our experience that the borrowers simply were waiting to be told what was expected of them and, once they understood this, they responded voluntarily and really magnificently.

GENERAL FUNDS OF ELECTRIC BORROWERS

I have some further statistics here with respect to general funds which the committee will be interested in. The number of borrowers with general funds in excess of the 20-percent limit that we set in that bulletin was 263 at the end of December of 1961. At the end of December 1962, it was down to 229, and it is declining steadily. At the other end of the scale, those borrowers with less than 10 percent of general funds—this is a level that is dangerous from the standpoint of the stability of the system—has declined, and this is a healthy sign; from 301 at the end of 1961 to 277 in 1962. So this indicates a growing strength of the marginal systems.

Now, the effect of this general funds policy is not only in terms of advance payments, but it is also to be measured in terms of payment of notes ahead of schedule and investment of general funds in plant rather than calling for loan funds for this portion of the investment. I will come to this chart in just a moment, but I would like to put into the record some further figures on this. I might just add this

summary statement, that the electric borrowers use of general funds has reduced the net cost to the Treasury of the REA program in the past 3 years by $195 million. The borrowers have invested $96 million in plant, made advance payments of $65 million, and retired notes before the due date of $34 million. Now these totals add up to about $100 million more than the comparable figures for the preceeding 3 years.

I think this gives you some measure of the salutary effect of the general funds policy which has been adopted and administered along the lines of this committee's interest and direction.

Mr. HORAN. Mr. Chairman, it is along that line I would like to ask my questions.

Mr. WHITTEN. Yes.

RESERVE FUNDS OF ELECTRIC BORROWERS

Mr. HORAN. Do you have any notion of the origin of the funds now being held in reserves, whether they are loan moneys, whether they are earnings, or what? I think the charts that you have shown us show a healthy direction.

Mr. CLAPP. These would not be loan funds, Mr. Horan. These would be funds accumulated from revenue strictly. Loan funds are segregated funds and can be used only for the specific purposes approved when the loan is made. This would be construction.

Mr. HORAN. That is one thing that has always bothered me, Mr. Clapp, how you can say that a borrower who has not repaid his loan can actually call any part of his reservation or his earnings his own until he had paid the entire loan.

Mr. CLAPP. I think we have to recognize that if it is going to operate soundly as a business, certain reserve funds must be maintained.

Mr. HORAN. We have accepted that; yes. But you would insist that they are not borrowed funds at 2-percent money that exist as a reserve with the cooperative?

Mr. CLAPP. I would insist, I hope it doesn't come to the eventuality you mention, that these would not be loan funds, definitely. There are some situations where a cooperative, a borrower, just starting out, a new system, in which a portion of the loan funds are permitted to be used for operating purposes. But this is a very unusual situation and practically always confined to new borrowers.

Mr. HORAN. That is all, Mr. Chairman. That question fit in very well with the charts you were showing us.

Mr. WHITTEN. Mr. Natcher.

Mr. NATCHER. Mr. Clapp, I want to thank you for appearing before our committee at this time and for your very excellent statement concerning the budget request for the Rural Electrification Administration.

CAPITAL NEEDS OF RURAL ELECTRIC SYSTEMS

I am very much in favor of the proposal recently made by the National Rural Electric Cooperative Association that a competent firm be now employed by NRECA to make a study to determine the capital needs of rural electric systems in the future and the willingness of the investment market to finance supplemental financial

requirements of our local co-ops. This study would also, as I understand it, determine the financial requirements of private investors to our co-ops and set forth clearly the capability of rural electric systems to meet the capital costs requirement. In addition, the mechanical requirements of private financing would be studied and the extent to which the REA restrictions imposed by existing law should be modified to make supplemental financing possible.

To me there has been a lot of misunderstanding concerning our present REA program. This, of course, has been brought about to a great extent by propaganda which cannot be substantiated. I am still of the opinion that REA is one of the great achievements of our present-day Government and am of the opinion that the study proposed as I have just outlined to you will be of great benefit to our people today.

Again, I want to thank you for your appearance before our committee.

Mr. WHITTEN. Mr. Addabbo.

AREAS COVERED BY ELECTRIC SERVICE

Mr. ADDABBO. Mr. Clapp, what part of the Nation is still unelectrified?

Mr. CLAPP. I suppose there are pockets in many parts, Mr. Addabbo, but I suppose also that the greatest areas without electric service would be in the Mountain States and the Southwest.

Mr. ADDABBO. What percentage has it been reduced from last year? I remember in the discussion of last year it was a small percentage.

Mr. CLAPP. It would be three-tenths of 1 percent.

RESERVE LOAN AUTHORIZATION

Mr. ADDABBO. What is the purpose for setting aside reservations which are to be borrowed on the same terms and conditions as the budget requested, in this year $365 million, with $65 million to be placed in reserve?

Mr. CLAPP. This is to provide available loan funds if needed, over and above what we anticipate to be our probable need. We have felt and I think our experience bears out the soundness of this approach, that having this reserve available—this availability actually makes it easier for our borrowers to negotiate suitable contracts so they do not have to come to us with applications for generation and transmission.

We have had some instances in which the renewed emphasis on generation and transmission in the REA program, I'm sure, has been responsible for loosening up negotiations with wholesale power suppliers and avoiding an application for a generating or transmission loan. One example was over here on the Delmarva Peninsula last year. There was another situation in Texas. So it is something to have in reserve, if needed, but we do not anticipate it will be needed and hope it will not be needed.

Mr. ADDABBO. Was any part of last year's $100 million reserve used?

Mr. CLAPP. 1963?

Mr. ADDABBO. Yes; 1963.

Mr. CLAPP. We used $25 million of the $100 million contingency fund in the 1963 budget.

Mr. ADDABBO. What happens to the balance of that fund? Does it go back to the Treasury?

Mr. CLAPP. Yes.

Mr. ADDABBO. This year your actual operating budget will be approximately $25 million over 1963?

Mr. CLAPP. Are you speaking of loan funds?

Mr. ADDABBO. Yes; in other words, the rural electrification program, reading from page 100?

Mr. CLAPP. If we were to use the full amount available in the present fiscal year, that would be correct.

Mr. ADDABBO. Which means you are asking for $25 million over and above what you asked for in 1964. In 1964 you have available $275 million.

Mr. CLAPP. Plus $150 million contingency.

Mr. ADDABBO. Yes; but actual available, $275 million. This year you are asking for $300 million, with $65 million contingency.

Mr. CLAPP. Yes; but taking the two together, it is actually a reduction of $60 million.

Mr. ADDABBO. Actually your reduction is only in your contingency and not in your actual basic request?

Mr. CLAPP. That is true.

PIRATING OF INDUSTRY

Mr. ADDABBO. Are you continuing the same safeguards against pirating of industry?

Mr. CLAPP. As a matter of fact, Mr. Addabbo, this revision of the section 5 loan bulletin adds a specific prohibition against the use of section 5 loan funds for anything that would constitute pirating an industry.

Mr. ADDABBO. Thank you very much.

That is all.

Mr. WHITTEN. Mr. Michel.

ELECTRIC LOAN APPLICATIONS

Mr. MICHEL. Mr. Clapp, what is the total of pending loan applications?

Mr. CLAPP. Are you speaking of the electric program?

Mr. MICHEL. Yes.

Mr. CLAPP. The figure I used was as of the end of January. That was $272,235,000.

Mr. MICHEL. Broken down as between distribution and G. and T.?

Mr. CLAPP. $79,246,000 was in the form of distribution applications; $78,108,000 was for generation purposes; $112,558,000 was for transmission.

Mr. MICHEL. What is your projection of applications that you will receive in this coming year?

Mr. CLAPP. We anticipate in fiscal year 1965, we will receive $450 million, total value of applications.

Mr. MICHEL. Total requests. How would you estimate those would break down as between distribution and G. and T.?

Mr. CLAPP. The distribution requirements are relatively stable. They will run $140, $150 million a year. I'm speaking in terms of loans now.

Mr. MICHEL. And those would principally be for beefing up existing lines; right?

Mr. CLAPP. Principally, and connecting new consumers in the areas that these borrowers serve.

NEW ELECTRIC BORROWERS

Mr. MICHEL. Have there been any brandnew cooperatives established in the past fiscal year?

Mr. CLAPP. I will supply this.

Mr. MICHEL. If you would supply that for the record, so I might have the details of that, please.

(The requested information follows:)

During fiscal year 1963, loans were made to four new borrowers, of which three are power-type borrowers and one is a distribution-type borrower, as follows:

Power borrowers:

Big Rivers Rural Electric Cooperative Corp., Owensboro, Ky.
Western Illinois Power Cooperative, Inc., Jacksonville, Ill.
The Lower Colorado River Authority, Austin, Tex.

Distribution borrower: Prentiss County Electric Power Association, Booneville, Miss.

LOANS NOT YET ADVANCED TO BORROWERS

Mr. MICHEL. I notice on the chart entitled "Status of Electrification Program," which appears on page 145 of the 1965 budget document, under the table entitled "Program Statistics" appears an item of $814,305,000 in unadvanced funds as of the end of the fiscal year 1963. Now, does this involve practically every cooperative in existence? That is practically a billion dollars we are talking about.

Mr. CLAPP. Although the loans are approved, the money is not actually advanced until it is needed.

Mr. MICHEL. Right.

Now, what would be the limit in time from the date of loan approval to when the funds might actually be advanced to the cooperative? In other words, how far back would you have approved loans involved in this $814 million, where you haven't yet advanced the funds?

Mr. CLAPP. Mr. Michel, we will check this. I think the maximum would be about 10 years, and this would be uncommon. A situation that arises which contributed very substantially to this figure of unadvanced funds is where a proposed project becomes involved in Commission proceedings and, as you know, this can be extremely protracted in some instances. One generation loan comes to mind in the chairman's State which had a very lengthy Commission hearing and is still in the courts. This would be back probably 4 or 5 years.

Mr. MICHEL. Would it be asking too much to have the names of the borrowers that are involved in this $814 million, the date of the loan, total amount of the loan, the funds advanced through June 30, 1963, the balance to be advanced as of July 1, 1963, the date upon which construction started, the percentage of construction completed on July 1, 1963, and estimated date of completion of construction?

Mr. CLAPP. That is a big order.

Mr. MICHEL. Right, but it is a sizable amount of money that has been heretofore appropriated over a period of years and then nothing

is done. Now, my point is if, for example, there are loans that were approved 10 years ago and funds have not yet been advanced, is there a mechanism for review of the situation? Why has this thing been allowed to accumulate? Is it to get a little in reserve, in anticipation of the cooperative action? Well, we want to be sure we get 2-percent money 10 years from now, so let's go in and make a request now. Maybe Congress will get moving one of these times to raise the interest rate, but we want ours to remain at 2.

Mr. CLAPP. Mr. Michel, I wonder if this would give you the information you need and at the same time cut down the clerical work involved. I take it from your question that you are primarily concerned with generation and transmission loans, and I think it would be true that the big chunks of unadvanced funds would be in this cateogry. I imagine there are probably very few of our borrowers that don't have some unadvanced funds because the normal distribution borrower operates on a 2- or 3-year cycle in which he comes in for a loan, and then this money is advanced over a period of the next 2 or 3 years, and then he comes back for his next needs.

So I would imagine that this would be practically our full roster if we supplied an accounting for every dollar of this unadvanced figure. But the big items I think would be found in the generation and transmission figures. Mr. Michel, you may be interested in this breakdown on the unadvanced funds:

The sum of $508 million is in the generation and transmission bracket. The distribution portion of the unadvanced funds has been coming down rather steadily since 1957.

Mr. MICHEL. You can go back, and by dates, give me an idea of how much is involved in loan funds that were approved over 3 years ago but not yet advanced. You can do that and break them down down by generation and transmission and distribution in increments, say, 5, 7, and if you have some, 10 years, just so I will know what is involved there?

The thought just struck me that I hadn't seen any figures on this and that caused me to set forth these questions this way.

Mr. CLAPP. I think we could give it to you in that form.

Mr. MICHEL. There seems to be such a very long timelag.

Mr. CLAPP. We will be happy to try to give you that information. Mr. Michel.

(The requested information follows:)

The total amount of unadvanced electric loan funds as of June 30, 1963, is shown below, according to the number of years since the loan was made.

Unadvanced electric loan funds, as of June 30, 1963

[In millions]

Years since loan was made	Generation and transmission borrowers	Distribution borrowers	Total
3 years or less	373.1	287.4	660.5
3 to 5 years	39.5	49.5	89.0
5 to 7 years	15.2	24.3	39.5
7 to 10 years	10.6	6.8	17.4
Over 10 years	5.8	2.1	7.9
Total	444.2	[1] 370.1	814.3

[1] Includes $64,100,000 loaned to distribution borrowers for generation and transmission purposes.

Mr. MICHEL. Now you discussed your Bulletin No. 111–3, under date of February 24, earlier in response to several of the chairman's questions and I have read the bulletin which sets forth the directives in part of our committee and that of the Senate Appropriations Committee. Would you set forth for me in chronological order the steps required by these reports as you have interpreted their provisions? Could you simply take me through the steps from the time you receive a loan application to its final approval, if it is to be approved?

POWER SUPPLY SURVEYS

Mr. CLAPP. Yes, and in doing so, I might combine this with the notification procedures, if that would be helpful, Mr. Michel.

With respect to generation and transmission projects involving more than $2 million, we propose in this Bulletin 111–3 that a survey of power supply needs be made before we consider the application. This would have to be done and could be done only on request of some borrower or prospective applicant.

Now the purpose in trying to move this survey on the larger loans out ahead of the application in point of time is that our experience has shown people are much more susceptible to considering various power supply alternatives if they can take a look at them before they get committed financially and personally to a particular approach; such as an application for a generation and transmission loan from REA. We feel that the survey can serve a very constructive purpose in exploring the various alternatives of meeting power supply needs in advance of any possible application, and hopefully head off any applications which would not really be necessary.

Mr. MICHEL. Well, now, I want to make sure I'm not getting confused, because on page 110 of the justifications last year, in that $206,325 for engineers activities, I got the idea that this was to be running some surveys on your own with some additional people. I'm wondering now if you are going to be running these surveys on your own without first receiving a request by a cooperative to get a particular loan. Are you going to go out on your own, on fishing expeditions, before you get a request?

Mr. CLAPP. Oh, no. The bulletin points out these surveys will be conducted only on request of a borrower or applicant.

Mr. MICHEL. But I notice it attempts to combine two separate and distinct procedures. One procedure covers request from a borrower for a power survey. This request is not necessarily related to an application for a G. & T. loan. The other procedure, in 111–3, is an obvious attempt to meet some of the directives of our committees. But the result to me is still somewhat confused. Could you show us which parts of the bulletin refer to the voluntary requests for power surveys, which parts refer to the committees' requirements, and which parts refer to both?

Mr. CLAPP. If you will take the bulletin and turn to page 2, under paragraph C, there is the clear policy statement that, "No loans for generation or transmission facilities will be made until a power supply survey has been completed by REA." This is in response to the committees' directive.

Mr. MICHEL. But you are not going to make that survey until you first receive an application, are you?

Mr. CLAPP. On the front page——

Mr. MICHEL. Because if it is the other way around, what you are doing is what we denied your doing and you are using this mechanism to go out and make your surveys and tell the cooperatives, "Look, I think you ought to apply for a G. & T. loan."

Mr. CLAPP. In paragraph A on page 1 it says, "Any REA borrower or potential borrower may request REA to make a survey of any specific power supply problem or its power supply needs." And the survey shall be conducted only after receiving a request.

Mr. MICHEL. I want to make absolutely sure that that is the case, because I don't think you need concern yourself about these surveys unless you have a specific request from somebody to get more money from you and in justification of it, you have to have the figures to back it up. And that, at least, is my understanding of why the committee, at least on the other side and here too, would justify a survey being made and want one to be made, to make sure you are on good solid ground.

Mr. CLAPP. We do anticipate that surveys may be requested before there is any G. & T. application. And we feel this is desirable.

As I say, our experience has shown that once the local people have come to the point of deciding that they need a generation and transmission loan, then it is much more difficult to get them to consider other alternatives.

When they make the application it is backed up by an engineering study, which has cost them considerable money. So we feel that to make these surveys as constructive and as helpful as possible, in trying to get full consideration for alternatives other than REA-financed facilities, it is important to have them made before these applications come in.

Now we have an interim period here, and a transitional period, in which we have no choice. The applications are already here, we can't make the loan under this policy or under the committee's directives, unless and until we have completed a survey. So in these cases, we are doing a survey with the application under consideration.

At the same time, and in the smaller loans, under $2 million, under this procedure, it is expected that the survey will probably go hand in hand with the processing of the application.

TIME LIMIT FOR NEGOTIATIONS

Mr. MICHEL. You may recall that I signed the conference report with a reservation that I preferred the Senate language as against the House language. I am particularly interested in the requirement in the Senate report that you should announce publicly a time period, during which the survey determinations and negotiations will be carried on, including the fixing of a definite cutoff date. I fail to find a provision in Bulletin 111–3 to comply with that directive.

How do you propose to comply with the publicly announced portion of the directive?

Mr. CLAPP. This reference is at the top of page 2, ahead of paragraph C, beginning in the third line. This is the end of paragraph B, covering the conduct of survey.

It reads:

When necessary to avoid dilatory tactics or protracted delays, the Administrator shall advise the parties in such cases of a definite time limit for negotiations under the survey and a final cutoff date for all proposals which are to be considered in evaluation of loan applications related to the problems and needs covered by the survey.

So this notice would be given where necessary to avoid dilatory tactics. I might point out——

Mr. MICHEL. Would you give that in the form of a letter to the parties?

Mr. CLAPP. In most cases, this would be the way it would be most effectively communicated.

Mr. MICHEL. How was this public announcement made in the case of the loan to the United Power Association, in the amount of $39,230,000 for a G. & T. facility?

Mr. CLAPP. This was done in correspondence. There were several exchanges of letters and I think actually there were at least two cutoff dates set. This was in exchange of correspondence with the Minnesota Power & Light Co.

OBTAINING REASONABLE CONTRACTS

Mr. MICHEL. Both of the committees stated that loans should be made only where reasonable contracts cannot be obtained.

Would you point out the portion of Bulletin 111–3 that requires the determination by you that a reasonable contract cannot be obtained?

Mr. CLAPP. This would be in the paragraph D, covering certification of loans for generation and transmission.

No loan for generation or transmission facilities will be made except in compliance with Bulletin 20–6—

that is the established criteria for G. & T. loans—

and upon certification by the Administrator to the Secretary of Agriculture that the loan has been approved after the completion of a power supply survey which shows that the loan is—

Then you drop down to (c)—

needed because existing and proposed contracts to provide the facilities or service to be financed were found to be unreasonable, each supplier involved was so advised, REA attempted to have such contracts made reasonable, and the existing or other proposed suppliers had failed or refused to do so within the time set by the Administrator.

This would be the reference or the response to that language.

Mr. MICHEL. I am trying to develop a simple clarification of Bulletin 111–3 as best we can, so there won't be any problem in evaluating its effectiveness.

60-DAY NOTICE TO COMMITTEES

Why did you omit the Senate committee requirement of a 60-day notice in writing before approving loans of over $2 million for generating facilities and major transmission lines?

Mr. CLAPP. This is included in the second bulletin, which is number 20–2. It is on page 7, under information relating to loan applications. It is paragraph C.

Mr. MICHEL. All right.

Is it your intention to make the provisions of this bulletin applicable to all future G. & T. loan applications, of do you consider it to be effective only for the fiscal year 1964?

Mr. CLAPP. This policy is policy for the future so far as REA is concerned.

Mr. MICHEL. Under your stewardship, at least?

Mr. CLAPP. Certainly under my stewardship until we are advised differently by the committees.

Mr. MICHEL. I was just wondering whether or not it would be necessary for the committee to reaffirm its position, for example, in fiscal year 1965 or if we could simply expect that having established this policy for 1964, that you would continue it until advised to the contrary?

Mr. CLAPP. My understanding is that we have historically responded to the committee instructions and then continued the practice until advised differently.

G. & T. APPLICATIONS PENDING

Mr. MICHEL. How many G. & T. loan applications are now pending in REA? I think you can supply that for the record.

If there are not too many, the names of them.

Mr. CLAPP. We can give you that.

Mr. MICHEL. With the amount.

Mr. CLAPP. Yes.

(The requested information follows:)

LOAN APPLICATIONS FROM POWER-TYPE BORROWERS ON HAND AS OF MARCH 4, 1964

Colorado-Ute Electric Association, Inc., Montrose Colo.:
Amount of application: $6,666,000.
Purpose: 239 miles of transmission line.

Southern Illinois Power Cooperative, Marion, Ill.:
Amount of application: $1,862,000.
Purpose: 59 miles of transmission line.

Northwest Iowa Power Cooperative, Lemars, Iowa:
Amount of application: $853,000.
Purpose: 8 miles of transmission line.

Louisiana Electric Cooperative, Inc., New Roads La.:
Amount of application: $57 million.
Purpose: 200-megawatt generation; 1 783 miles of transmission line.

Wolverine Electric Cooperative, Inc., Big Rapids, Mich.:
Amount of application: $845,000.
Purpose: 19 miles of transmission line.

Northern Minnesota Power Association, Inc., Grand Rapids, Minn.:
Amount of application: $13,265,000.
Purpose: 1,131 miles of transmission line.

Cooperative Power Association, Minneapolis, Minn.:
Amount of application: $13,050,000.
Purpose: 739 miles of transmission line.

Plains Electric Generation & Transmission Cooperative, Inc., Albuquerque, N. Mex.:
Amount of application: $10,753,000.
Purpose: 322 miles of transmission line.

East River Electric Power Cooperative, Inc., Madison, S. Dak.:
Amount of Application: $4,683,000.
Purpose: 310 miles of transmission line.

Mid-Texas Electric G & T Cooperative, Inc., Roby, Tex.:
Amount of application: $15,139,000.
Purpose: 44-megawatt generation; 648 miles of transmission line.

Dairyland Power Cooperative, La Crosse, Wis.:
Amount of application: $42 million.
Purpose: 275-megawatt generation; 80 miles of transmission line.

Mr. MICHEL. How many of these would be listed in the confidential category?

Mr. CLAPP. I am sure than I can say, without reservation, that none of the electric applications are now considered to be received in implied confidence.

You are speaking of the confidential category in connection with our public announcement policy that was adopted 2 years ago?

Mr. MICHEL. Right.

Mr. CLAPP. Yes.

COMPTROLLER GENERAL'S REPORT

Mr. MICHEL. Mr. Clapp, you are aware of the Comptroller General's report to the Congress, under date of November 1963, having to do with the "Possibilities for Reducing Federal Expenditures Under the Electric Loan Program and Other Matters Pertaining to the REA"?

Mr. CLAPP. Yes, I am.

Mr. MICHEL. I read that report some time ago and my memory isn't perfect, but as I recall, several instances were cited of what benefit could be gained, both by the cooperative and the overall REA program, if the cooperatives accelerated their repayments to REA instead of taking the maximum period of time for repayment, and if REA would encourage them to borrow over a shorter period of time to escape growing interest charges.

Have you analyzed that report carefully?

Mr. CLAPP. Yes; we have analyzed it very carefully. I would like to comment briefly on it, if I may.

Mr. MICHEL. I would like to get your reaction to some of their recommendations since they are an arm of the Congress. I do realize, however, there may be another side to their economy suggestions.

Mr. CLAPP. The Comptroller General, in this report, is obviously concerned about the maximum conservation of loan funds and we are too. The main point which he makes in this report is that he feels, on the basis of studies made by his staff, that loan funds could be conserved if at the time the loan is made, the financial planning of the borrower were analyzed in detail and some allowance were made in tailoring the amount and the term of the loan to fit anticipated revenues in the future period of the loan.

Mr. MICHEL. I think, as a matter of fact, he makes a special point that the generation and transmission loans are made without considering the borrower's ability to repay and that this ability to repay sometimes has actually proven to be quite good and you were not taking advantage of it.

Mr. CLAPP. He urges that each borrower develop financial plans for this purpose. As I say, we share the Comptroller General's concern and I am sure the committee's concern over maximum economy of loan funds.

But, actually what we are doing under our present policies, although we approach it with different techniques, accomplishes the same objective that he would propose to accomplish by using the

financial plan and crediting anticipated future revenues against the anticipated future needs for construction.

Rather than trying to make that kind of a detailed analysis and tailoring the face amount of the loan and the term of the loan to those anticipations, we go at it from a different approach. We make the loan for the full amount required for the construction and for the maximum term allowed under the law. Then we pull back the anticipated revenues that develop, any excess financial resources, as they are developed. As a matter of fact, if you speak of the desirability of shortening the term of the loan and encouraging the borrower to pay off in advance—and one of these charts which we saw here indicated that this is the case—this is precisely what is happening.

Although we refer to these loans in terms of the fact amount and the maximum term of 35 years, in actual practice, the face amount is not outstanding for 35 years.

First of all, the money is not advanced until needed. Secondly as the borrower develops anticipated revenues, which give it general funds over and above its proper needs, under our policies this comes back in advance payments on the loan and, in effect, tends to shorten the time the loan is outstanding, as well as reduce the balance outstanding.

We feel that by exercising some control over the level of general funds, we accomplish the same objective that the Comptroller General proposes to accomplish by making all of these calculations in advance at the time the loan is approved.

We already require that the general funds be within the limits set by our policy guidelines at the time the loan is approved. We have under active consideration the further extension of that policy which would make a similar requirement at the time any advance of loan funds is made and a still further extension which would give the Administrator authority to accelerate repayments under an amended loan contract at any time the borrower's general funds exceed the proper levels set in our policy guidelines.

I would like to submit for the record the formal reply made to Mr. Dawson, chairman of the Committee on Government Operations of the House of Representatives by Secretary of Agriculture Freeman, covering the major questions raised in the Comptroller General's report.

I would like also to submit for the record a shorter summary statement, issued December 10, 1963, for the trade press, summarizing the position of REA, on these questions.

(The documents referred to follow:)

JANUARY 6, 1964.

HON. WILLIAM L. DAWSON,
Chairman, Committee on Government Operations,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: We are pleased to give you our views and comments on the Comptroller General's report of November 22, 1963, on "Possibilities for Reducing Federal Expenditures Under the Electric Loan Program of the Rural Electrification Administration," which you asked for in your letter of November 27, 1963.

The Comptroller General believes that Federal expenditures in the electric loan program could be reduced if borrowers, under certain circumstances, were to finance the construction of their utility plant from funds expected to be generated by borrowers' income-producing operations instead of from REA loans. Such a practice, he says, could result in fewer, smaller, and shorter term REA loans with-

out adversely affecting program objectives. To accomplish such a plan, the Comptroller General recommends (1) that REA establish policies and procedures requiring borrowers to prepare long-range financial plans and forecasts in support of loan applications and (2) that REA carefully analyze these plans and forecasts before approving loans or granting them for the maximum authorized 35-year period, giving particular attention to the availability of funds expected to be generated by borrowers' income-producing operations and the financial policies governing the planned disposition of expected operating margins.

The Comptroller General also recommends that the Department of Agriculture extend its general funds policy in making loans to making advances under new loans and that the Department take a more active role in helping its borrowers and their power suppliers in trying to reach agreement on power supply contract rates and terms before making generation or trasmission loans with the view of reducing the amount of loans.

The Department of Agriculture is in complete agreement with the Comptroller General as to the desirability of accomplishing program objectives with a minimum advance of loan funds and at the lowest practicable cost to the Government. The Department, however, does not share the Comptroller General's views as to the best procedures to be used in achieving the objectives.

The Comptroller General places emphasis on control of borrower general funds through long-range financial forecasts. Since 1946, the Department has been encouraging the preparation and use of financial forecasts by borrowers as a part of its management advisory and assistance program. Based on experience in dealing with nearly 1,000 electric borrowers, the Department does not believe it is practical to rely on these forecasts to the extent proposed by his report. The best interests of the Government, the borrowers, and their patron-members are served when the terms of the long-term loan are set to provide the most favorable conditions practicable with alternative means provided to assure that only needed loan funds are advanced and any borrower funds appropriately available for advance payments on their debts are made to the Treasury at the earliest date consistent with program objectives.

Relying on the availability of future-earned revenues to finance the construction of the facilities on which loan feasibility is certified is not in keeping with the objectives of the program, for the following reasons:

1. To require use of operating revenues for construction purposes could perpetuate high rates in the rural areas served by our borrowers.
2. Any policy which would require retention of substantial amounts of patronage capital and its use in lieu of REA financing would of necessity delay the reduction of rates and substantially postpone the return of patronage capital, notwithstanding the objectives and requirements of the program concerning the furnishing of service on a nonprofit at-cost basis.
3. To require patron-members to provide funds from income-producing operations simultaneously for (1) construction of new or additional plant, (2) necessary renewal and replacements, and (3) repayment of the debt for original plant construction, would substantially increase the consumers' immediate financial burden. Such a requirement would be contrary to accepted utility ratemaking principles.
4. The administrative costs involved would probably be materially greater than those now incurred for many of our loan studies.

The concern of both the Department and the Comptroller General is the full utilization of borrower resources for program purposes and in this way reduce as much as possible the need for loan funds.

The task of holding expenditures of the program to a minimum can be accomplished better through the control of the accumulation of borrowers' general funds after they have been generated. This would serve the interest of the Government, the borrowers, and their patron members, and would meet program objectives. After all it is not the face amount or term of loan approvals that determine interest cost to the Government but rather the actual amount of loan funds outstanding. The orderly advancing of loan funds as needed and the repayment of loans ahead of maturity date by use of unneeded funds in the form of advance payments will assure the minimum amount of loans outstanding and a resulting minimum interest cost to the Government.

It should be recognized that loan funds are not necessarily advanced at the time or in the amount of loan approval. The funds are advanced only as needed. In many cases the total amount approved is not actually disbursed. The procedure is similar to what is known in commercial channels as a "line of credit" with precise limitation and supervisory control over the purpose for which the borrower can draw on the line of credit.

Furthermore under existing procedures over four-fifths of the borrowers have already made advance payments totaling $225 million on their loans and in addition have paid off millions of dollars on notes substantially ahead of the maturity dates.

The Department has moved to reduce as much as possible the use of loan funds. In 1961 it undertook a study to determine the desirable and prudent levels of reserve or general funds which a borrower ought to have as a matter of sound business for working capital renewal and replacement of plant and contingencies. On the basis of this study a general funds policy was issued in February of 1962 which has the effect of requiring that any general funds a borrower develops in excess of these limits shall be turned to constructive program purposes including retirement of rural electric loans and direct investment in plant to reduce loan needs to be eligible for further rural electric loans. Borrowers must now be in compliance with this policy at the time of a new loan request in order to get the loan approved.

As a logical extension of this approach, the Department has been studying, as the Comptroller General acknowledges, the possibility of preventing future accumulation of excessive general funds by the borrower after the loan is approved, by making the cash advances under the loan subject to continued compliance with the limits of the general funds policy. Also under study is the possibility of making future loans conditional upon the borrower's agreed compliance with the general funds limitations for the duration of the loan.

The Department of Agriculture feels that such an approach can effectively accomplish the purpose of conserving loan funds and reducing the Government's costs without entailing the far more complicated and expensive administrative burden of precisely tailoring the full amount and term of future loans to specifications based on detailed speculation as to future revenues and operating margins.

We believe this procedure is more efficient administratively since it also reduces to a minimum the need for processing supplemental loan applications arising out of attempting to limit the dollar amount of loan approvals too closely in advance.

It should be noted that the individual borrower's financial forecasts cited by the Comptroller General were initiated prior to the availability of the general funds guidelines provided by REA's general funds policy bulletin. The loans were made soon after the policy was announced. In our opinion, the conditions described as demonstrating a need for a change in procedure are in fact not fair measures of the effectiveness of the policy.

The loan of $6.7 million was made to an REA borrower in connection with a joint venture with the Atomic Energy Commission. The borrower will finance the conventional portion of a 50,000-kilowatt nuclear generating plant which is scheduled to be in operation by 1966. The boiling water reactor and associated nuclear facilities will be financed and installed by the U.S. Atomic Energy Commission. These facilities, including the reactor, will be operated by the borrower in accordance with a contract with the AEC which provides for the purchase of steam. The usual practice was followed of making the loan for the full amount expected to be needed in connection with the construction of the particular facility. No advances have been made against this loan, therefore, no interest costs will be incurred until an advance is made.

The financial plans of the borrower have changed since the financial forecast cited by the Comptroller General was made. In the furtherance of rural electric program objectives, since the date of the loan, the borrower has already placed into effect a modification of rates which will result in some reductions, and it is adopting a major rate reduction to be effective January 1, 1964, which will amount to about $1 million per year at present load levels.

In the other case cited by GAO as an illustration of questionable need for loan funds, the loan of $399,000 was made to finance the construction of 8 miles of distribution line to serve 137 new rural consumers and make system improvements.

Subsequent to making the loan, the borrower has retired approximately $150,000 of capital credits, through checks handed out in person on September 5, with the remainder mailed on September 9, 1962. This represented the capital credits for the years 1941 through 1947. In addition, the borrower is currently making final plans for a retail rate reduction to be placed into effect on April 1, 1964. However, even after this reduction the cooperative's rates at the 250- and 500-kilowatt-hour levels will undoubtedly be several percent higher than comparable rates for residential service in cities and towns of the State. The amount of the reduction will be greater than the amount of saving in power cost to be realized from a recent wholesale rate reduction. The borrower's general funds as a percent of plant, as of September 30, 1963, was 17.7 percent.

About $207,000 of advances have been made against this loan. However, when the loan application was under early consideration, the borrower had general

funds amounting to 23.3 percent of plant. This was reduced to 19.9 percent prior to approval of the loan through an advance payment of $221,000 made on July 6, 1962. There was, thus, a reduction of $14,000 in REA loan funds outstanding as a result of these two transactions. Hence, here again there has been no actual increase in loans outstanding, and therefore no interest cost to the Government has been incurred.

It is to be noted that the assumptions made by GAO in illustrating the possible interest costs on REA loans during the next 35 years are not related to actual experience during the past 35 years but appear to have been selected to present the worst possible combination of circumstances. For example, GAO used an interest rate of more than 4 percent in making their calculations, thus arbitrarily using the highest cost of money currently being experienced by the Government, the rate payable for its long-term obligations.

There is no precise way to measure the cost of REA loan funds to the Treasury. The interest rate on securities sold by the Treasury varies by issues. Short-term securities generally bear a lower rate of interest than intermediate or long-term securities. The proceeds from any particular sale of securities cannot be identified as being used to make loans to REA. Under Treasury operations, the proceeds from the sale of securities are commingled and are used with tax revenues to meet the daily expenditure requirements of the U.S. Treasury.

Most of the public debt has a relatively short maturity period. As of June 30, 1963, the average maturity was 4 years and 1 month. At the same date only 11.2 percent of the debt had a maturity of 10 years or more, which indicates that the interest rate on marketable bond issues with maturities of 10 years or more is representative of only a small part of the debt. As a matter of fact, the average interest rate on marketable issues has not exceeded about 3½ percent since 1934 and has only exceeded 3 percent during the past 4½ years.

Furthermore, the illustrations assumed the immediate advance of the full amount of the loan approved and no advance repayments during the life of the loan. Neither of these assumptions reflect a pattern consistent with actual experience.

The Department is taking a more active role in helping borrowers and power suppliers reach agreement on rates and terms of power supply contracts. The Department is now working out procedures to comply with the recommendations of the House and Senate Committees on Appropriations in the light of the recent conference report on the Department of Agriculture and related agencies appropriation bill of 1964, the House managers' statement, and the discussion of the conference report in both the House and Senate at the time of its adoption.

This phase of the GAO examination was restricted to the electric loan program. It is significant that GAO went into a number of controversial matters including alleged illegal acts in connection with loans for generation and transmission as well as so-called industrial and commercial-type section 5 loans. Their examination did not disclose any instances where electric loans were made contrary to law or administrative regulations.

The few minor deficiencies brought to the attention of the Rural Electrification Administration by the General Accounting Office have now been satisfactorily corrected.

Sincerely yours,

JOHN A. BAKER,
Assistant Secretary.

U.S. DEPARTMENT OF AGRICULTURE,
RURAL ELECTRIFICATION ADMINISTRATION

DECEMBER 10, 1963.

In response to requests for comment on the November 22, 1963, report of the General Accounting Office [1] concerning certain procedures of the Rural Electrification Administration, REA Administrator Norman M. Clapp today issued the following statement:

"The concern of the Department of Agriculture, REA, and the Comptroller General is the full utilization of borrower resources for program purposes and in this way reduce as much as possible the need for loan funds.

"REA under the present administration has already been moving to accomplish this. In 1961 it undertook a study to determine the desirable and prudent levels

[1] Title of the GAO report is "Possibilities for Reducing Federal Expenditures Under the Electric Loan Program and Other Matters Pertaining to the Rural Electrification Administration, Department of Agriculture:"

of reserves and general funds which a borrower ought to have, as a matter of sound business, for working capital, renewal and replacement of plant and contingencies. On the basis of this study REA issued a general funds policy in February of 1962. It has the effect of requiring that any general funds a borrower develops in excess of these limits shall be turned to constructive program purposes, including retirement of REA loans and direct investment in plant to reduce loan needs, in order to be eligible for further REA loans.

"Thus a borrower must now be in compliance with this policy at the time of a new loan request in order to get the loan approved.

"The policy is greatly accelerating borrower payments to the Treasury. In fiscal year 1961, the year before the policy became effective, advance payments on loans and retirement of notes ahead of schedule in the electric and telephone programs amounted to $16.8 million. In 1962, with the policy in effect for only a part of the year, they rose to $26.2 million. In 1963, the first full year of the policy, they climbed to $46.4 million.

"As a logical extension of this approach, REA has been studying, as the Comptroller General acknowledges, the possibility of preventing future accumulation of excessive general funds by the borrower after the loan is approved, by making the cash advances under the loan subject to continued compliance with the limits of REA's general funds policy. The Comptroller General approves and recommends this in his report.

"REA also has under study the possibility of making its future loans conditional upon the borrower's agreed compliance with the general funds limitations for the duration of the loan.

"The Department of Agriculture and REA feel that such an approach can effectively accomplish the purpose of conserving loan funds and reducing the Government's costs without entailing the far more complicated and expensive administrative burden of tailoring the full amount and terms of future loans on detailed speculation of future revenues and operating margins, as recommended by the Comptroller General.

"It should be recognized that loan funds are not necessarily advanced at the time of or in the amount of loan approval. The funds are advanced only as needed, and only to the extent they are needed for loan purposes.

"This procedure is more efficient administratively since it reduces to a minimum the need for processing supplemental loan applications arising out of limiting overall dollar amounts too precisely in advance. The procedure is similar to what is known in commercial channels as a 'line of credit' with precise limitation and supervisory control over the purposes for which the borrower can draw on the line of credit."

SECTION 5 LOANS

Mr. MICHEL. In a letter from Mr. Baker, under date of March 4, 1963, addressed to me, there is indication that an REA section 5 loan is under consideration with respect to recreational development at Lake of Seven Fingers, in Macoupin County, Ill.

The development will include swimming facilities, 18-hole golf course, 9-hole miniature golf course, and a 10-unit motel. How much REA money is going to be used for the development of the golf courses and the motel?

Mr. CLAPP. This loan has been rescinded, Mr. Michel. After the loan was made, the project looked so good that it became possible for the owner to negotiate some other financing, so the section 5 loan was not required and the loan has been rescinded.

Mr. MICHEL. Glad to hear that. Incidentally, under date of February 22, 1964, there was an editorial in the Bloomington Daily Pantagraph entitled "Co-Op Eschews Subsidy." Mr. Chairman, with your permission, I would like to have the editorial placed in the record at this point.

Mr. WHITTEN. We will be glad to put it into the record.

(The document follows:)

[From the Feb. 22, 1964, issue of the Bloomington Daily Pantagraph, Bloomington, Ill.]

CO-OP ESCHEWS SUBSIDY

The Cornbelt Electric Cooperative made a significant announcement at its 25th Anniversary meeting recently. The board of directors declared: "We believe that today the Cornbelt Electric Cooperative does not need any subsidy which might be afforded by 2 percent money and in conformity with such beliefs have refrained from borrowing from REA." Expansion and development come from revenues.

The board also explained that the last money borrowed from REA was at a time when the cost of money to the Government was less than 2 percent and thet therefore the board does not think those original loans were subsidiaries. This loan is being paid off on or ahead of schedule, according to the official report.

The board did observe that in sparse areas of low member use, the low interest rate is still necessary to insure and support area coverage.

All power used by the Cornbelt Electric Cooperative is purchased from the private utility companies in this area, thus making the electric co-op one of the largest customers of private utilities.

The co-op board stressed in its philosophy that it is owned and controlled by the consumers who live in central Illinois and that it is in no sense a governmental agency. Capital credits are passed on to the members using the electricity.

The only justification of governmental help is in areas where private business cannot or will not fill the need. This is the case when rural electric cooperatives were formed.

A corollary is that Government should pull out as rapidly as new enterprises can go it alone. It is good to know that the directors of the Cornbelt Electric Cooperatives agree and that they are moving rapidly toward operation independence of the Federal Government.

Mr. MICHEL. I will ask you to comment on this for the record, Mr. Clapp.

Mr. CLAPP. I am not familiar with their detailed situation, Mr. Michel, but it is true that some of these rural systems, because of their particular circumstances, are getting paid up and proceeding without further REA financing. There are not many of these.

BORROWERS REDUCING OUTSTANDING BALANCES

I would like to point out at this time, and I think it will interest you, that, in the 3-year interval from December 31, 1960, to December 31, 1963, 395 distribution borrowers and 20 power-type borrowers reduced their principal balances outstanding on their REA loans. In other words, this number in this 3-year period are in a position of paying off rather than acquiring larger net balances. And this, I think, although not typical of the aggregate program, does indicate a substantial number of borrowers are on declining balances.

EQUITY OF REA BORROWERS

Mr. MICHEL. Going back to the chart which disclosed that the equity of the cooperatives is continually building, I think the figure showed 23.9 percent as of 1963. Have you made any projections of what the equity of the co-ops might be 10 years from now?

The chart which you have shows a 10-year progressive period from 1952 to 1962. I am curious to know what your projections might be beyond those dates.

Mr. CLAPP. The equity has been increasing about 1 percent a year, so that if it follows this trend, it would mean at the end of 10 years, the equity would be somewhere in the nature of 35 percent.

Mr. MICHEL. I would like to turn now, if I might, Mr. Clapp, to a series of questions relating to the Western Illinois Power Cooperative in my home State of Illinois.

Last year, a generation and transmission loan of $7,807,000 was approved by REA for the Western Illinois Power Cooperative for the construction of a generating station of 22,000 kilowatts, to be located on the Illinois River in the vicinity of Pearl, Ill., with associated transmission facilities. You are, I am sure, thoroughly familiar with this loan, are you not?

Mr. CLAPP. Yes. This was made several months ago. I recall the loan.

Mr. MICHEL. As I understand it, there were eight cooperatives that formed WIPCO.

Mr. CLAPP. I think there are seven in it now.

Mr. MICHEL. Yes, but originally were there not eight?

Mr. CLAPP. Yes.

Mr. MICHEL. It is my understanding that the major portion of the power furnished these cooperatives with the exception of Illinois Rural Electric Co., was furnished by either the Central Illinois Public Service Co. or the Illinois Power Co.

Mr. CLAPP. That is correct.

Mr. MICHEL. And it is my further understanding that the Illinois Power Co. and Central Illinois Public Service have enough capacity in both generation and transmission to furnish the requirements of these cooperatives.

Now you may argue with that, but this is what I was given to understand.

How would you respond to that assertion on my part?

Mr. CLAPP. I don't know what their situation is. I do know, though, Mr. Michel, that the power to be supplied out of this generating unit, this 22,000 kilowatt unit, does not replace any power that is supplied to any of these cooperatives under the 10-year contracts that are in force. Some of this power is replacing power that is being supplied from the city of Springfield. Some of it is providing a permanent arrangement for power that has been purchased or, is being purchased on a month-to-month basis, from one or both of these companies.

Some of it is a new requirement entirely; new delivery points. Nothing has been taken away from the companies in service that is covered by the contracts in force.

Mr. MICHEL. Now in a letter to the power company, that would be Illinois Power Co., on May 17, 1963, you said:

> At present, it—

meaning Wipco—

> does not have these transmission facilities, nor are they projected in the loan application now under consideration.

On July 3, 1963, just a month and a half later, REA approved a loan to Wipco, which included $1,800,000 for transmission lines.

Why was there such a change in attitude by the REA, in such a short time? Or what economic studies were made justifying the transmission line?

Mr. CLAPP. There is no change in attitude on the part of REA, Mr. Michel. As I recall that letter, when I stated that Wipco did not have such facility, this did not refer to transmission as such, but it referred to the transmission network that would be necessary to accept one-point power delivery from the company. The company had made a proposal that it negotiate with Wipco, a new contract on the basis of one point of delivery.

Now I think this was based on some misunderstanding as to what facilities were covered in the Wipco application, because there had been talk that the Wipco group would develop a transmission system that could serve all seven or eight co-ops, from a single point of delivery.

It dosen't have these facilities—didn't have them then—it won't have that complete a network even with these facilities provided in the loan. This loan was to cover strictly interim power requirements, interim deficiencies.

These cooperatives, except for Illinois Rural, are served by the companies under a contract that expires in 1970 and there are presently negotiations underway now for possibly the amendment of the existing contract for the balance of its term and for some arrangement that will follow the expiration of this contract. This is on a very tentative basis at the present time.

But we have been in touch with Central Illinois Public Service Co., and we have had conferences with some of their officials, and representatives of the McDonough Power Cooperative, and we have been in touch with Illinois Power Co. by letter.

So the Wipco loan dealt with a very specific emergency situation, involving power deficiencies of only three of the seven co-ops. It does not alter in any way the overall contractual arrangements for wholesale power with the two companies. If any changes are made in those contractual arrangements, they will be made in the months ahead.

Mr. MICHEL. In a public statement John Hunter, city commissioner of Springfield, recently said Wipco has asked for authority from REA to build a 69,000-volt line into the Springfield system from this proposed plant at Pearl. He further stated this was a duplication of facilities in that there already was a 69,000-volt line from Jacksonville to Springfield. So my question is: Why was authorization for the duplication of these facilities given by your office?

Mr. CLAPP. We haven't authorized it yet, to the best of my knowledge. It is your understanding that that is part of this?

Mr. MICHEL. Yes.

Mr. CLAPP. I would have to supply the answer to that.

(The requested information follows:)

The 69 kilovolt transmission line from the Western Illinois Power Cooperative plant site near Pearl, Ill., to Springfield, Ill., is provided for in the loan to Wipco. The line planned by Wipco will not be a duplication of the existing Springfield-Jacksonville line because the existing line will not have the capacity to meet the needs of Wipco and Jacksonville for any substantial period of time after the Wipco steam generating plant goes into operation.

In the interim, Wipco has made temporary arrangements for the use of the existing Jacksonville-Springfield line to enable it to purchase its deficiency power requirements from the city of Springfield.

GENERATION AND TRANSMISSION BORROWERS

Mr. MICHEL. What generation and transmission cooperatives have been formed in Illinois? Or would you supply for the record the names and locations of strictly the generation and transmission cooperatives throughout the country?

Mr. CLAPP. We could give you the names of those that are borrowers, yes.

Mr. MICHEL. Right.

(The requested information follows:)

GENERATION AND TRANSMISSION BORROWERS

Alabama Electric, Cooperative, Inc., Andalusia, Ala.
Arizona Electric Power Cooperative, Inc., Benson, Ariz.
KAMO Electric Cooperative, Inc., Vinita, Okla.
Arkansas Electric Cooperative Corp., North Little Rock, Ark.
Colorado-Ute Electric Association, Inc., Montrose, Colo.
Tri-State Generation and Transmission Association, Inc., Denver, Colo.
Arkansas Valley Generation and Transmission, Inc., Pueblo, Colo.
Georgia Electric Membership Corp., Millen, Ga.
Southern Illinois Power Cooperative, Marion, Ill.
Western Illinois Power Cooperative, Inc., Jacksonville, Ill.
Indiana Statewide Rural Electric Cooperative, Inc., Osgood, Ind.
Southwestern Federated Power Cooperative, Inc., Creston, Iowa.
Central Iowa Power Cooperative, Marion, Iowa.
Corn Belt Power Cooperative, Humboldt, Iowa.
Northwest Iowa Power Cooperative, Le Mars, Iowa.
L. & O. Power Cooperative, Rock Rapids, Iowa.
City of Pella, Pella, Iowa.
Sunflower Electric Cooperative, Inc., Wakeeney, Kans.
East Kentucky Rural Electric Cooperative Corp., Winchester, Ky.
Big Rivers Rural Electric Cooperative Corp., Henderson, Ky.
Wolverine Electric Cooperative, Inc., Big Rapids, Mich.
Northern Michigan Electric Cooperative, Inc., Boyne City, Mich.
Rural Cooperative Power Association, Elk River, Minn.
City of Litchfield, Litchfield, Minn.
United Power Association, Elk River, Minn.
South Mississippi Electric Power Association, Lucedale, Miss.
Sho-Me Power Corp., Marshfield, Mo.
M. & A. Electric Power Cooperative, Poplar Bluff, Mo.
Northeast Missouri Electric Power Cooperative, Palmyra, Mo.
Central Electric Power Cooperative, Jefferson City, Mo.
North West Electric Power Cooperative, Inc., Cameron, Mo.
Associated Electric Cooperative, Inc., Springfield, Mo.
The Central Nebraska Public Power & Irrigation District, Holdredge, Nebr.
Loup River Public Power District, Columbus, Nebr.
Nebraska Electric Generation & Transmission Cooperative, Inc., Columbus, Nebr.
Plains Electric Generation & Transmission Cooperative, Inc., Albuquerque, N. Mex.
Minnkota Power Cooperative, Inc., Grand Forks, N. Dak.
Fidelity Gas Co., Minneapolis, Minn.
Dakotas Electric Cooperative, Inc., Bismarck, N. Dak.
Central Power Electric Cooperative, Inc., Minot, N. Dak.
Basin Electric Power Cooperative, Bismarck, N. Dak.
Western Farmers Electric Cooperative, Anadarko, Okla.
Central Electric Power Cooperative, Inc., Cayce, S.C.
East River Electric Power Cooperative, Inc., Madison, S. Dak.
Rushmore Electric Power Cooperative, Inc., Rapid City, S. Dak.
Brazos Electric Power Cooperative, Inc., Waco, Tex.
South Texas Electric Cooperative, Victoria, Tex.
Lower Colorado River Authority, Austin, Tex.
Dairyland Power Cooperative, LaCrosse, Wis.

Mr. MICHEL. Obviously the ones you listed would be those that have received generation and transmission loans from REA.

Mr. CLAPP. That is correct.

G. & T. LOAN APPLICATIONS CLOSED WITHOUT LOANS

Mr. MICHEL. Have there been any applicants in that category that have been turned down?

Mr. CLAPP. The one that occurs to me offhand is the Lignite group which had an application for a generation and transmission loan before us at the same time we were considering the basin application. And we made the basin loan, which replaced, provided the capacity that the Lignite application applied for. So this is an application that has been closed without loan.

Mr. MICHEL. Would it be wrong to classify these as "supercooperatives"?

FEDERATED COOPERATIVES

Mr. CLAPP. This term has been used. I think it is more accurate to call them federated cooperatives. They are cooperatives of cooperative distribution systems.

Mr. MICHEL. Is this the trend? Do you foresee down the road that this might take place throughout the country, with practically all of them?

Mr. CLAPP. Where it is necessary for them to provide their own wholesale power supply I think it is inevitable they will have to federate with each other, because alone their loads are too small to develop economic power sources. There are some areas in the country where they can't do this.

Mr. MICHEL. Do you have some loan applications from these federated cooperatives, as you choose to call them, for interconnecting ties?

Mr. CLAPP. Yes.

Mr. MICHEL. Could you supply for the record those that have made such application?

Mr. CLAPP. Yes. We are going to supply a list of applications that was requested earlier. The applications that we have on hand. I think that was for generation and transmission.

Mr. MICHEL. Right.

Mr. CLAPP. And I think it would be apparent from the size of the application as to the nature of the project.

(The information requested follows:)

Of the loan applications on hand from power-type borrowers listed earlier, the following include facilities for interconnection (i.e., transmission facilities to interconnect the borrowers' systems with another system so as to permit the transfer of electric energy between the systems in either direction):

Colorado-Ute Electric Association, Inc., Montrose, Colo.:
Amount of application: $6,666,000.
Purpose: 239 miles of transmission line.

Louisiana Electric Cooperative, Inc., New Roads, La.:
Amount of application: $57 million.
Purpose: 200-megawatt generation; 1,783 miles of transmission line.

Wolverine Electric Cooperative, Inc., Big Rapids, Mich.:
Amount of application: $845,000.
Purpose: 19 miles of transmission line.

Northern Minnesota Power Association, Inc., Grand Rapids, Minn.:
Amount of application: $13,265,000.
Purpose: 1,131 miles of transmission line.
Cooperative Power Association, Redwood Falls, Minn.:
Amount of application: $13,050,000.
Purpose: 739 miles of transmission line.
Plains Electric Generation & Transmission Cooperative, Inc., Albuquerque, N. Mex.:
Amount of application: $10,753,000.
Purpose: 322 miles of transmission line.
Mid-Texas Electric G. & T. Cooperative, Inc., Roby, Tex.:
Amount of application: $15,139,000.
Purpose: 44-megawatt generation; 648 miles of transmission line.
Dairyland Power Cooperative, La Crosse, Wis.:
Amount of application: $42 million.
Purpose: 275-megawatt generation; 80 miles of transmission line.

WESTERN ILLINOIS POWER COOPERATIVE

Mr. MICHEL. Do you know what the plans are for interconnecting the Wipco plant with other cooperative generation and transmission systems in the area?

Mr. CLAPP. No, I do not. I think it is safe to say that Wipco does not have any firm plans and will not have any very firm plans until we see how the negotiations go with the Illinois Power Co. and Central Illinois Public Service.

Mr. MICHEL. There is another statement by the city commissioner of Springfield, whom I mentioned before, that causes me some grave concern for our free enterprise system.

On February 4, 1964, when talking about the city's interconnection with Wipco, the Commissioner said—and I quote:

> And this is all going to be an interconnection tie with the 12 REA systems ultimately when we get the line built up from Marion to Springfield and connected with Wipco. Also this line from southern Illinois will be interconnected with the Southeast Power Administration. The Southeast Power Administration is interconnected with the Tennessee Valley Authority. So it looks like we are going to get some cheaper Federal power in here before too long.

This is the city commissioner of Springfield, in Illinois, talking.

Now my concern is, is this a possibility in the future?

Mr. CLAPP. I would say, Mr. Michel, this is very advanced planning. We have no knowledge of anything that definite. This is not to say that this sort of thing might not happen. But again I say that Wipco's plans will be dependent, I think, very definitely on what develops in the negotiations between the cooperatives in Illinois and these two companies that presently serve them under the contracts expiring in 1970.

REA LOANS FOR SERVICE TO RURAL CONSUMERS

Mr. MICHEL. Do you now have so much funds that you can loan money for the benefit of a municipal electric system?

Mr. CLAPP. We can only loan funds to provide service for unserved rural consumers. We do have some municipal borrowers who have borrowed from REA to provide service for rural consumers. One that occurs to me is Pella, Iowa. They installed some generating capacity to serve the rural community around the city. We provided the financing, but only to the extent that this served the beneficiaries of the act.

Mr. MICHEL. Are you familiar with the Southeast central generation and transmission group in Illinois?

Mr. CLAPP. I don't place it, Mr. Michel.

Mr. MICHEL. I was going to ask you if a group with that name had a request for application in.

Mr. CLAPP. We can determine that.

(The requested information follows:)

The Illinois South Central Power Cooperative, Inc., Mount Vernon, Ill., is an organization of five REA-financed distribution cooperatives. They have not submitted an application for a loan.

MEMBERSHIP IN ELECTRIC COOPERATIVES

Mr. MICHEL. Now, in a little different tack, can any person or corporation become a member of a cooperative in Illinois?

Mr. CLAPP. With your permission, Mr. Michel, I would like to refer this question to Mr. Koebel, of the General Counsel's Office.

Mr. KOEBEL. Without being immediately familiar with any special restrictions in Illinois, I believe this might be proper. Probably there are such now. I would have to check.

Mr. MICHEL. As I understand the rural electric cooperatives, a member is a part owner. Would that be correct?

Mr. CLAPP. He is an owner; yes.

Mr. MICHEL. I suppose then that over a period of time he builds up an equity in his cooperative's facilities?

Mr. CLAPP. Yes. Not all cooperatives have the capital credits plan installed, but we recommend the assignment of equity on the basis of patronage, and if this capital credits plan is followed, then it is possible to determine the amount of each member's equity based upon his proportionate share of the cooperative's margins each year.

Mr. MICHEL. If a member moves and no longer receives service from his co-op, how is he reimbursed for his equity?

Mr. CLAPP. Part of the capital credits plan involves the revolvement of capital. We are in the process of issuing a new bulletin bringing up to date our existing bulletin on capital credits. In this we recognize the importance of maintaining——

Mr. MICHEL. In the process did you say of making it up?

Mr. CLAPP. Yes.

Mr. MICHEL. When will it be out?

Mr. CLAPP. Probably within the next few days.

We recognize the importance of maintaining the identity of the owner, investor, and consumer, in the same group. As an administrative matter, however, we acknowledge the difficulty of paying off capital credits when somebody discontinues service or moves off the system. We feel that he does not acquire any preferential right simply by leaving.

But we recommend the revolvement of capital credits be done by years, and he will be paid off as his class comes up, so to speak.

By revolving it over a period of years we keep approximate currency of owner, investor, and consumer in the same group.

Mr. MICHEL. Is the equity of a deceased member ever paid to his estate?

Mr. CLAPP. This is one instance in which exceptions are made by many co-ops. They will pay off capital credits in the event of death to settle the estates—out of turn, so to speak.

WESTERN ILLINOIS ELECTRIC POWER COOPERATIVE

Mr. MICHEL. When we started the discussion of Wipco and I said I thought there were eight cooperatives and you corrected me to seven, I think the reason is that McDonough withdrew.

Mr. CLAPP. Yes.

Mr. MICHEL. Now, of the remaining seven, as I understand it, the one, Illinois Rural Electric Cooperative, already has a generating operation.

Mr. CLAPP. They have had some diesel generation, I think about 12,000 kilowatts' capacity.

Mr. MICHEL. How is it that Wipco takes over the generation of this Illinois Rural Electric Cooperative? Did they buy it as an outright cash transaction, or did they just take over the loan, or what?

Mr. CLAPP. I would have to check this.

Mr. MICHEL. If you would clarify that, please.

Mr. CLAPP. I would like to submit an answer to this question after I have had a chance to check the records, because there was some discussion as to just how this transfer would be accomplished, and I am not sure that I recall exactly on what basis it was done.

Mr. MICHEL. There was mention made in Illinois that this Illinois Rural Electric Cooperative with generation facilities was in financial trouble and that to get out from underneath the burden it was convenient for the other six, or at one time seven, to assume the obligations of Illinois Rural Electric Cooperative.

I would like to have that clarified in my own mind, if I might, as to just what kind of transaction went on.

Mr. CLAPP. I will see that that statement is supplied.

I think the term "financial trouble" is not appropriate. But Illinois Rural did have diesel generation, which is high-cost generation. And the other cooperatives in the Wipco group agreed they would take this over, even though it is the kind of generation that has outlived its economic usefulness as base load generation but will be used for peaking and standby.

(The requested information follows:)

The Western Illinois Power Cooperative has taken over the generation and transmission facilities owned by the Illinois Rural Electric Co. This was done by what is called an "assumption" transaction, that is, Wipco assumed a portion of Illinois Rural's debt to REA equal to the sale price of the facilities. The sale price was the original cost of the facilities, less accumulated depreciation.

RESTRICTIVE CLAUSES IN POWER SUPPLY CONTRACTS

Mr. MICHEL. I think in prior appearances we have talked about contracts of the private power companies having clauses that have kept the cooperatives from supplying or serving industrial loads. What cooperatives have been unable to serve industrial loads because of these kind of clauses? Is it a great number? Could you supply for the record specific instances where a cooperative has been deprived of it because of a clause in their contract from a private supplier?

Mr. CLAPP. Yes, we can supply a list of this kind, Mr. Michel. There is a variety of arrangements, of course, that amount to restriction on the right of the co-ops to serve these loads.

Mr. MICHEL. Would you just supply at least a few of those that are most frequently cited as a bar or as a deterrent?

Mr. CLAPP. Yes.

(The requested information follows:)

There are various types of dual-rate provisions designed to prevent or deter the cooperatives from serving industrial or other loads.

The typical dual rate provides for a dollar-value penalty per kilowatt for every load served whose demand exceeds a fixed value. For example, for all loads served by the cooperative having a demand in excess of 50 kilowatts there shall be added to the rate prescribed the amount of $1 for each kilowatt by which those loads exceed 50 kilowatts.

A similar dual-rate feature provides that for the power and energy delivered for all loads on the cooperative's lines in excess of 50 kilowatts, the cooperative shall be billed at a rate which would apply if the company were to serve such loads directly.

Some contracts contain a modification of the above, in which the dual-rate feature applies only if the cooperative serves these loads at rates lower than the company's applicable rate schedule for such loads.

Where the corporate limits of towns have moved out into the areas developed by the cooperatives, dual-rate provisions have been extended to apply to all types of nonrural service.

A type of restriction which can be used as a dual-rate restriction is found in contracts under which the power sold is not available for service to loads whose demands exceed the fixed limit without agreement by the company for the cooperative to serve such loads.

Another provision designed to limit the cooperatives ability to serve large loads is the exception clause in the dual-non-pirating feature of some power company contracts. Under the dual-non-pirating feature the company and the cooperative agree not to serve loads adjacent to the facilities of the other, but the exception clause then provides that this mutual protection shall not apply to loads in the industrial category, loads of large size, or loads in incorporated areas, where either has a franchise.

Significant progress has been made toward the elimination of restrictive features in contracts between commercial power suppliers and cooperatives. In 1961 commercial companies had dual rate or other restrictive provisions in 189 contract arrangements with REA borrowers. These provisions have been eliminated from 49 contracts between 6 companies and 41 REA borrowers. A seventh company has removed the dual-rate provision from contracts with eight borrowers while retaining a dual-rate provision which involves five other borrowers. There are now 13 companies that still have restrictive provisions in 140 contract arrangements with 125 different borrowers. REA is presently working with 8 of the 13 companies who have indicated a willingness to negotiate for the removal of restrictive provisions in 69 contract arrangements.

One REA borrower was required in February of 1954, by an interconnection contract with a power supplier to insert a very restrictive provision in its contracts with 19 member cooperatives. These restrictions were removed in February of this year by a superseding contract.

REA does not have an official record of the loads lost by REA borrowers because of the various types of dual rate and other restrictive features in their contracts, but it is the effect of such provisions to enable the company either to exercise control over loads the REA borrowers may undertake to serve, or reserve the benefits of such loads for themselves, or both.

Following is a list of companies which still have dual rates and other restrictive provisions in their contracts, with a sublisting of the cooperatives affected by each company. The listing does not include contracts with the dual-nonpirating feature unless the contract also includes other types of restrictions.

Indiana & Michigan Electric Co.:
Whitley County REMC, Columbia City, Ind.
Huntington County REMC, Huntington, Ind.
Paulding-Putnam Electric Cooperative, Inc., Paulding, Ohio.

Ohio Power Co.:
Holmes-Wayne Electric Cooperative, Inc., Millersburg, Ohio.
Belmont Electric Cooperative, Inc., St. Clairsville, Ohio.
Midwest Electric, Inc., St. Marys, Ohio.
Paulding-Putnam Electric Cooperative, Inc., Paulding, Ohio.
Licking Rural Electrification Inc., Utica, Ohio.
Tuscarawas-Coshocton Electric Cooperative, Inc., Coshocton, Ohio.
North Central Electric Cooperative, Inc., Attica, Ohio.
South-Central Rural Electric Cooperative, Inc., Lancaster, Ohio.
North Western Electric Cooperative, Inc., Byran, Ohio.
Carroll Electric Cooperative, Inc., Carrollton, Ohio.
Guernsey-Muskingum Electric Cooperative, Inc., New Concord, Ohio.
Hancock-Wood Electric Cooperative, Inc., North Baltimore, Ohio.
Buckeye Rural Electric Cooperative, Inc., Gallipolis, Ohio.
Washington Electric Cooperative, Inc., Marietta, Ohio.

Public Service Co. of Indiana:
Hancock County REMC, Greenfield, Ind.
Parke County REMC, Rockville, Ind.
Clark County REMC, Sellersburg, Ind.
Jackson County REMC, Brownstown, Ind.

Upper Peninsula Power Co.: Alger-Delta Cooperative Electric Association, Gladstone, Mich.

Kentucky Utilities Co.:
Jackson Purchase Rural Electric Cooperative Corp., Paducah, Ky.
Green River Rural Electric Cooperative Corp., Inc., Owensboro, Ky.
Henderson-Union Rural Electric Cooperative Corp., Henderson, Ky.

NOTE.—The Jackson Purchase Cooperative is paying a higher rate which is a penalty for not accepting the limitations of the lower rate applied to Green River and Henderson-Union.

Georgia Power Co. (WR–2):
Colquitt County Rural Electric Co., Moultrie, Ga.
Altamaha Electric Membership Corp., Lyons, Ga.
Irwin County Electric Membership Cooperative, Ocilla, Ga.
Flint Electric Membership Corp., Reynolds, Ga.

Washington County Electric Membership Corp., Sandersville, Ga.
Mitchell County Electric Membership Corp., Camilla, Ga.
Three Notch Electric Membership Corp., Donalsonville, Ga.
Oconee Electric Membership Corp., Dudley, Ga.
Middle Georgia Electric Membership Corp., Vienna, Ga.
Pataula Electric Membership Corp., Cuthbert, Ga.

Georgia Power Co. (WR–5):
Rayle Electric Membership Corp., Washington, Ga.
Planters Electric Membership Corp., Millen, Ga.
Troup County Electric Membership Corp., La Grange, Ga.
Colquitt County Rural Electric Co., Moultrie, Ga.
Upson County Electric Membership Corp., Thomaston, Ga.
Carroll Electric Membership Corp., Carrollton, Ga.
Walton Electric Membership Corp., Monroe, Ga.
Douglas County Electric Membership Corp., Douglasville, Ga.
Hart County Electric Membership Corp., Hartwell, Ga.
Altamaha Electric Membership Corp., Lyons, Ga.
Sumter Electric Membership Corp., Americus, Ga.
Snapping Shoals Electric Membership Corp., Covington, Ga.
Central Georgia Electric Membership Corp., Jackson, Ga.
Irwin County Electric Membership Corp., Ocilla, Ga.
Flint Electric Membership Corp., Reynolds, Ga.
Satilla Rural Electric Membership Corp., Alma, Ga.
Grady County Electric Membership Corp., Cairo, Ga.
Washington County Electric Membership Corp., Sandersville, Ga.
Mitchell County Electric Membership Corp., Camilla, Ga.
Ocmulgee Electric Membership Corp., Eastman, Ga.
Jefferson County Electric Membership Corp., Louisville, Ga.
Lamar Electric Membership Corp., Barnesville, Ga.
Sawnee Electric Membership Corp., Cumming, Ga.
Habersham Electric Membership Corp., Clarkesville, Ga.
Jackson Electric Membership Corp., Jefferson, Ga.
Cobb County Rural Electric Membership Corp., Marietta, Ga.

Three Notch Electric Membership Corp., Donaldsonville, Ga.
Canoochee Electric Membership Corp., Reidsville, Ga.
Little Ocmulgee Electric Membership Corp., Alamo, Ga.
Excelsior Electric Membership Corp., Metter, Ga.
Oconee Electric Membership Corp., Dudley, Ga.
Okefenoke Rural Electric Membership Corp., Nahunta, Ga.
Tri-County Electric Membership Corp., Gray, Ga.
Slash Pine Electric Membership Corp., Homerville, Ga.
Amicalola Electric Membership Corp., Jasper, Ga.
Middle Georgia Electric Membership Corp., Vienna, Ga.
Pataula Electric Membership Corp., Cuthbert, Ga.
Coastal Electric Membership Corp., Midway, Ga.
Coweta-Fayette Electric Membership Corp., Newnan, Ga.

Mississippi Power Co.:
Coast Electric Power Association, Bay St. Louis, Miss.
Pearl River Valley Electric Power Association, Columbia, Miss.

Southwestern Electric Power Co.:
Southwest Arkansas Electric Cooperative Corp., Texarkana, Ark.
Arkansas Valley Electric Cooperative Corp., Ozark, Ark.
Carroll Electric Cooperative Corp., Berryville, Ark.
Ozarks Electric Cooperative Corp., Fayetteville, Ark.
Rich Mountain Electric Cooperative, Inc., Mena, Ark.

NOTE.—These Arkansas cooperatives are served under contract with Arkansas Electric Cooperative Corp. which contains a dual-rate feature applying to these member cooperatives. The company has dropped the dual-rates feature for two Louisiana cooperatives and six Texas cooperatives served either directly by the company or under the Tex-La arrangement.

Oklahoma Gas & Electric Co.:
Arkansas Valley Electric Cooperative Corp., Ozark, Ark.
Ozarks Electric Cooperative Corp., Fayetteville, Ark.
Cimarron Electric Cooperative, Kingfisher, Okla.
Red River Valley Rural Electric Association, Marietta, Okla.
Central Rural Electric Cooperative, Stillwater, Okla.
Indian Electric Cooperative, Inc., Cleveland, Okla.

Public Service Co. of Oklahoma:
Caddo Electric Cooperative, Binger, Okla.
Red River Valley Rural Electric Association, Marietta, Okla.
Kiwash Electric Cooperative, Inc., Cordell, Okla.
Cotton Electric Cooperative, Walters, Okla.
East Central Oklahoma Electric Cooperative, Inc., Okmulgee, Okla.
Verdigris Valley Electric Cooperative, Inc., Collinville, Okla.
Indian Electric Cooperative, Inc., Cleveland, Okla.

Kansas Power & Light Co.:
Cooperative Electric Power & Light Co., Inc., Iola, Kans.
Brown Atchison Electric Cooperative Association, Inc., Horton, Kans.
D.S. & O. Rural Electric Cooperative Association, Inc., Solomon, Kans.
Butler Rural Electric Cooperative Association, Inc., El Dorado, Kans.
Kaw Valley Electric Cooperative Co., Inc., Topeka, Kans.
Doniphan Electric Cooperative Association, Inc., Troy, Kans.
C & W Rural Electric Cooperative Association, Inc., Clay Center, Kans.
Lyon County Electric Cooperative, Inc., Emporia, Kans.
Coffey County Rural Electric Cooperative Association, Inc., Burlington, Kans.
Flint Hills Rural Electric Cooperative Association, Inc., Council Grove, Kans.
Nemaha-Marshall Electric Cooperative Association, Inc., Axtel, Kans.
Ark Valley Electric Cooperative Association, Inc., Hutchinson, Kans.
Ninnescah Rural Electric Cooperative Association, Inc., Pratt, Kans.
Central Kansas Electric Cooperative, Inc., Great Bend, Kans.
P.R. & W. Electric Cooperative Association, Inc., Wamego, Kans.
Leavenworth-Jefferson Electric Cooperative, Inc., McLouth, Kans.
Smoky Hill Electric Cooperative Association, Inc., Ellsworth, Kans.
Twin Valley Electric Cooperative, Inc., Altamont, Kans.[1]

[1] This company has removed the large load dual rate feature but retains dual rate on all loads served in communities the population of which exceeds 200 persons.

Central Illinois Public Service Co.:
Wayne-White Counties Electric Cooperative, Fairfield, Ill.
Coles-Moultrie Electric Cooperative, Mattoon, Ill.
Menard Electric Cooperative, Petersburg, Ill.
Rural Electric Convenience Cooperative Co., Auburn, Ill.
Eastern Illinois Power Cooperative, Paxton, Ill.
Edgar Electric Cooperative Association, Paris, Ill.
Illini Electric Cooperative, Champaign, Ill.
Shelby Electric Cooperative, Shelbyville, Ill.
Adams Electrical Cooperative, Camp Point, Ill.
McDonough Power Cooperative, Macomb, Ill.
Western Illinois Electrical Cooperative, Inc., Carthage, Ill.
Norris Electric Cooperative, Newton, Ill.
Spoon River Electric Cooperative, Inc., Canton, Ill.
M. J. M. Electric Cooperative, Inc., Carlinville, Ill.
Southwestern Electric Cooperative, Inc., Greenville, Ill.
Clay Electric Cooperative, Inc., Flora, Ill.
Illinois Power Co.:
Wayne-White Counties Electric Cooperative, Fairfield, Ill.
Farmers Mutual Electric Co., Geneseo, Ill.
Illinois Valley Electric Cooperative, Inc., Princeton, Ill.
Menard Electric Cooperative, Petersburg, Ill.
Rural Electric Convenience Cooperative Co., Auburn, Ill.
Monroe County Electric Cooperative, Inc., Waterloo, Ill.
McDonough Power Cooperative, Macomb, Ill.
Corn Belt Electric Cooperative, Inc., Bloomington, Ill.
M. J. M. Electric Cooperative, Inc., Carlinville, Ill.
Tri-County Electric Cooperative, Inc., Mount Vernon, Ill.
Clinton County Electric Cooperative, Inc., Breese, Ill.
Southwestren Electric Cooperative, Inc., Greenville, Ill.

Mr. CLAPP. I might say we have made some progress in getting these dual rates and similar restrictions removed from these contracts.

SOUTHERN ILLINOIS POWER CO-OP

Mr. MICHEL. There is another G. & T. cooperative in Illinois, Sipco, Southern Illinois Power Cooperative. What has been the cost per kilowatt-hour of the power generated by that operation? Will you supply that for the record?

Mr. CLAPP. Yes.

(The requested information follows:)

The Southern Illinois Power Cooperative commenced operation in October 1963. Operating reports, therefore, reflect conditions associated with early operation, including operation of facilities for testing and final adjustments.

The first 2 months' costs of generation were 8.47 and 7.79 mills per kilowatt-hour.

Mr. MICHEL. And I would like to have for the record the rates that Sipco is selling power to the distribution cooperatives and at what rate will it sell to the city of Springfield, which has a population of 80,000 people? It has been reliably stated that an expert engineering witness of Southern Illinois Cooperative, a member of Sipco, testifying before the Illinois Commerce Commission, said that the Southern Illinois Power Cooperative's cost of electric energy over a 10-year period would be 8.72 mills per kilowatt-hour and the average cost in 1963 for electric energy from Illinois Power Co. was 8.62 mills per kilowatt-hour, and from Cips approximately 8.3 mills per kilowatt-hour.

On the strength of those figures, I put this question: How do you justify the feasibility of such a plant? Why don't you supply that for the record, if you would like?

Mr. CLAPP. Yes, I would like to supply a longer answer, but I would point out at this moment here that this rate that you cite of the companies, I am sure, is the rate under the contract with the restrictions on serving the larger loads. The company's rate for unrestricted service is 11.25 mills. This is the rate which was involved in the Wipco study.

(The information referred to follows:)

The Southern Illinois Power Cooperative is currently selling power to its members at the following rate:

Demand charge: $1.37 per kilowatt per month.

Energy charge: 6 mills per kilowatt-hour.

This rate averaged 9.3 mills per kilowatt-hour for the 2 months it has been in effect. The rate includes all costs necessary to deliver power to the point where the distribution cooperative requires it. Sipco is not interconnected with the city of Springfield and sells no power to the city of Springfield.

Mr. MICHEL. How much are we talking about, then, in difference of volume of kilowatt-hours there?

Mr. CLAPP. In the case of the Wipco loan, the loan compared with this 11.25-mill rate, provided savings of almost a million dollars over a 10-year period to these three cooperatives.

Mr. MICHEL. When you say "unrestricted," what are we talking about there in the difference between what the cooperatives could have as a load factor with the restriction, as you call it, as against without any restriction?

Mr. CLAPP. Well, I take it that this represents——

Mr. MICHEL. Fifty percent more business, 20 percent more business, or what?

Mr. CLAPP. I suppose this varies from situation to situation. But this difference between 8.5 or 8.25, 8.5 mills roughly, and 11.25, certainly represents the company's estimate of what this restriction is worth to them.

SERVICE TO RADIO RELAY STATION

Mr. MICHEL. Are you aware of a case in the southern part of my State of Illinois in which the A.T. & T. asked a private company to provide energy for a new radio relay station?

Mr. CLAPP. I am aware of several of those, Mr. Michel. I am not sure we have in mind the same one.

Mr. MICHEL. Well, has it come to your attention that the Egyptian Electric Cooperative Association, which serves a number of farm customers in that area, attempted to compete with the electric company for that business and used methods up to and including the purchase of narrow strips of land around the tower site to block service by the investor-owned company?

Mr. CLAPP. Yes, I am aware of that situation.

Mr. MICHEL. Is that a common practice for a cooperative?

Mr. CLAPP. This relay station was right adjacent to a line belonging to the co-op, and the telephone company had actually approached the co-op to serve the relay station. The plans of the telephone company were later changed. The co-op had made some investment to provide this service before they discovered that they did not have a firm arrangement with the telephone company. I think Illinois Power Co. built about 2 miles of line, if I remember the figures correctly, to pick this load up, whereas the co-op was right

along the road, adjacent to it. This has created quite a controversy, and the co-op has resorted to some rather extreme measures to see if it couldn't keep this load for the co-op on what thay thought was the original understanding.

Mr. MICHEL. It is my understanding that the Egyptian Cooperative attempted on three occasions to intervene and block condemnation requests for the electric company's line to the tower while the cooperative built a new line of its own. Then, of course, finding itself in this kind of a situation, the cooperative went out and bought the land surrounding it, so that nobody else could get an easement over the land. This gets to be pretty cutthroat competition.

Mr. CLAPP. This is an interesting case, because here is what the situation involved. This co-op line was right alongside of this relay station. It was a single-phase line. To serve the relay station would require a three-phase line. There was another farmer down the road who wanted three-phase service and the co-op had not felt it was able to supply that farmer with three-phase service until this load came along. By hooking up the relay station with three-phase service they could justify the extension of this kind of service to the farmer farther down the road. They went ahead and put this service in, thinking that they had a firm commitment from the telephone company. As it turned out, they did not have such a firm commitment. If my recollection of the distance is correct, the Illinois Power Co., built in about 2 miles to pick this load up, which is right in the co-op territory.

Mr. WHITTEN. I am interested in these questions. I am not as familiar with the territory or the environment involved here, but in my own State this argument between the private companies and the co-ops has been resolved since the State regulatory body passed on this territorial business. I just wonder if in your State you have a State commission that can set territory and fix all that? This is relatively new in my State, but since we got it, the power companies and REA have had to get together and they have resolved these things. I don't say they are completely comfortable living together, but they are getting along better.

Mr. CLAPP. It has been tested in the courts and some very significant progress has been made.

ELECTRIC LOAD STUDIES

Mr. MICHEL. Mr. Clapp, at the time a loan application is under consideration by REA, is a detailed study made of the potential business in the area to be served?

Mr. CLAPP. We have a unit in REA that is constantly working on load projections and this means a study of the community served by our borrowers and what the anticipated load growth is going to be.

Mr. MICHEL. Now, does this study take into consideration any existing consumer receiving central service from an investor-owned utility?

Mr. CLAPP. No; this would be a study of anticipated load growth on the co-op's lines. And I am sure it would not include the acquisition of loads from other systems.

MORTGAGE RESTRICTIONS

Mr. MICHEL. Does the mortgage given by an REA borrower to the United States contain provisions restricting the use of borrowers' funds in making any extensions or additions to its system?

Mr. CLAPP. I am not sure I understand what type of restrictions you have in mind.

We have in one or two instances added to the customary restrictions on the use of loan funds in accordance with the act the further restriction that these funds shall not be used to duplicate the facilities of other borrowers. I don't know if you have reference to this or not. This came up in the State of Louisiana recently.

SERVICE TO FORT RUCKER, ALA.

Mr. MICHEL. Are you familiar with the efforts being made by the Alabama Electric Cooperative and one of its members to serve Fort Rucker in Alabama, which has been served with Central Station Electric power since it was established in 1941?

Mr. CLAPP. I know there has been some controversy over this. I'm not familiar with it.

Mr. MICHEL. We raised some question better than a year ago relative to Eglin Air Force Base, and now indications are this same practice is about to be employed at Fort Rucker. I can conceive that throughout the country, similar cases will come up. In answer to my inquiry put to the Department of Defense, as to whether or not they took into account the special subsidy that a cooperative had in getting 2-percent money, as may be just the difference in the rate that could be quoted in competitive bidding, the Department of Defense said, "No, we do not take this into account in evaluating these competitive bids." Well, I'm sure you can see what can happen around the country if this is going to be a pattern. That is why I raise the question. Here is the second one coming up already in Alabama.

Mr. CLAPP. I'm not familiar with the situation at Fort Rucker, but with respect to Eglin, this was not a duplication of anybody else's facilities. In fact, the east end of the Eglin Air Force Base, which was to be served under the invitation to bid, was between 15 and 20 miles away from the utility service of the power company that served the headquarters area. The new area to be served by the co-op was actually in the co-op service territory and the co-op had facilities over there at the time.

Mr. MICHEL. Do you know if any of your staff or field representatives have discussed the possibility of this cooperative serving Fort Rucker?

Mr. CLAPP. I would be glad to make some inquiries and see what that situation is.

Mr. MICHEL. In view of the fact that this defense establishment is now receiving central station service, what provision of the act would you cite as a base for approving the use of any funds of the cooperative to serve this installation?

Mr. CLAPP. Loan funds could not be justified for this purpose. As to the cooperatives' right to use its own funds, this I would imagine is their decision.

Mr. MICHEL. Of course, they could get around it by running their lines, with REA borrowed funds, so close to the base that at some future date, with a much smaller amount of their own funds, they could tap in off this line. The major expense is financed by REA, and, by simple use of their own accumulated general funds they move on the base.

Mr. CLAPP. I would like to, for purposes of clarifying the record, include in my statement whatever information there is as to the proximity of co-op facilities to the base or on the base. There may be some special history here that I am not aware of.

(The information referred to follows:)

The Alabama Electric Cooperative has an existing 46-kilovolt transmission line extending through the Fort Rucker reservation. This line provides service to load centers of the Covington Electric Cooperative, Inc., Andalusia, Ala., and the Pea River Electric Cooperative, Ozark, Ala. The Covington Electric Cooperative in turn presently provides electric service to an auxiliary installation of Fort Rucker.

REA has been informed that U.S. Army procurement officials at Fort Rucker have invited the Covington Electric Cooperative to bid on electric service for the entire base. However, the Covington Electric has not requested loan funds for providing such facilities nor in the opinion of REA could Federal loan funds be made available for such purpose.

SOLICITOR'S OPINION NO. 4506

Mr. MICHEL. And since you have your counselor with you, I'm reminded of the opinion of the Solicitor, No. 4506, of the Department of Agriculture a number of years ago when he said:

For example, it is my opinion that a competing line could not be financed even though it were only a small part of a system designed to reach unserved persons and even though the project could not properly be developed without such completing line.

And with that kind of an opinion then, I come back to the questions I was raising earlier, how could a loan to a cooperative be justified in competing with a central station service supplying, for example, Fort Rucker?

May I also ask this question: Is that Solicitor's opinion, back I think in November 1942, still the rule today or would there be a change?

Mr. CLAPP. I'm not familiar with the opinion. I don't know if Mr. Koebel recalls it or not.

Mr. KOEBEL. The number is familiar, Mr. Michel, but I can't say that particularly in the context that I can recall it. I think the point you may have in mind—if I could make this comment, Mr. Clapp, that while the act says that we must have persons who have not yet received central station service, these installations, as Mr. Clapp has implied, include situations where the premises are quite large, so that the mere fact that a portion of the base is already served would not prevent serving an unserved portion of that base that is substantially distant. That was the situation at Eglin which Mr. Clapp commented on.

Now I don't know the facts on Rucker, but we would be glad to check out this opinion and see what bearing it might have on this.

(The requested information follows:)

Solicitor's Opinion No. 4506 of November 24, 1942, is the basic legal opinion relating to the authorization for financing acquisitions of existing properties and

is still followed. It is clear from the sentence in the opinion immediately preceding that the reference in the quoted sentence from this opinion to "competing line," is to a "competing line" which would "substitute a competitive REA-financed service to persons already served." This type of competing line could not be financed with loan funds.

PURPOSE OF RURAL ELECTRIFICATION ACT

Mr. MICHEL. You have used the term "equalizer," Mr. Clapp, during the hearings on the 1964 budget request and in your 1963 report on the operations of REA. The induction of equalizers into the basic purpose of the Rural Electrification Act conforms to the same pattern used by you in adding the third criterion for generation and transmission loans, and expanding section 4 loan purposes to include loans for business and industrial purposes. In other words, administrative amendments to legislation, as I would prefer to call it, in connection with the induction of these new standards during your testimony before our subcommittee on the 1964 budget.

Our chairman, Mr. Whitten, commenting on your statement, said this:

> I have read this act two or three times. I'm all for it. I cannot see this rural urban thing. I have not seen anything in the act that said anything about that. It says, "those not getting central station current." I think it is a new wrinkle you have come up with, as far as I'm concerned. I have been on this committee a long time and have never heard anybody contend that.

In connection with the administrative amendment of the act, as to its basic purposes, I would like to ask you a couple of questions such as this: Would you please specify the parts of the act upon which you rely to support your position in justifying this equalization?

Mr. CLAPP. I think I make no claim to any peculiar insight here, Mr. Michel——

Mr. WHITTEN. It is hard to know what the chairman means himself there.

Mr. CLAPP. It seems quite clear to me as you look back over the circumstances surrounding the enactment of the Rural Electrification Act that people who were interested in rural electrification at that time, both in and out of Congress, were concerned with ways and means of getting the benefits of electricity to people who lived in the country in full measure. In other words, the absence or the conditions of electric service would not be a penalty for living out in the country.

It is true that in the early stages of the program, everyone was so preoccupied with just getting any kind of service to rural people that this frequently was looked upon as the sum and substance of the whole job. But I go back to the fact that electric service was always available in rural areas at a price. If you could afford to pay the price, you could get it. The price was pretty high. And the purpose of the rural electrification program was to provide some means whereby this could be brought within the financial reach of rural people. This was the purpose of the type of financing provided by the Federal Government. This was the purpose of the technical assistance provided through REA. And I would construe the intent of the program, the intent of Congress, to work toward the kind of electrical and telephone service in the rural areas, with the help that the REA program can offer, which eliminates the absence of these vital services as a penalty for living in rural areas.

That is a backward way of stating it, but these are very important services. They are important to people's living standards. They are important to people's ability to do business efficiently. And if they are available only at a premium, this is an injustice to rural people and it is a drag on the progress of rural areas. So maybe it is just one man's way of looking at it, but this is the way I interpret the congressional intent in providing this program. As I say, I don't lay claim to any peculiar insight, but I was around the Congress at the time the act was passed, and I recall the general concern that men in the Congress had at that time in passing the act.

THE ELECTRIC PROGRAM IN ALASKA

Mr. MICHEL. In response to a question from Mr. Addabbo on the sparsely populated areas of the country, you failed to mention Alaska. What, if anything special, is being done in Alaska to push electricity to these sparsely populated areas? I just spent 5 or 6 days up there in February and I know it is great country. As a matter of fact, I could see justification for a program of this kind, both on the electric side and on the telephone side. There is a great need for expansion in Alaska, and for economic growth and population growth.

Is there anything you can do to stimulate the activity up there?

Mr. CLAPP. Mr. Michel, I am embarrassed because I certainly was error in neglecting to mention Alaska, because this is an area in which the REA program is about the only thing that rural people have to turn to up there. At last report there were one or two very small power companies, but they were just struggling to get along. We have a number of borrowers in Alaska. We have one very substantial generation and transmission cooperative headquartered at Anchorage. I call it a generation and transmission cooperative, and I shouldn't because it is classed as a distribution cooperative. But it has some substantial generating capacity. We have under consideration at REA now a number of applications for the expansion not only of distribution but generation.

Mr. MICHEL. Mr. Clapp, the hour is getting late and I appreciate my colleagues bearing with me through this long period of questioning. Since it is so late let me put just four more questions to you and we will call it a day.

RURAL TELEPHONE PROGRAM

These four questions will be: What is the amount of REA loans made during recent years to commercial telephone companies as compared to loans made to telephone cooperatives? And the percentages of each to the total.

No. 2: What percent of the customers of each of these groups of borrowers are farmers as contrasted to urban and suburban businesses and residences?

No. 3: In connection with additional loans being made to telephone companies, why were the cumulative total loans made to the same borrowers omitted from the publicity releases on such loans?

And in the same vein: What is the percent of the borrower's equity in the resulting capital structure and the trend in this equity ratio with the successive loans?

No. 4: What criteria are applied by REA as to the amount to be paid for telephone operating properties to be acquired by the borrowers, either from the proceeds of the loan or paid from their equity in advance of a contemplated loan to finance subsequent construction?

(The requested information follows:)

Telephone Loans to Commercial Companies as Compared to Cooperatives

The telephone amendment to the Rural Electrification Act provides that the Administrator, in making telephone loans, "shall give preference to persons providing telephone service in rural areas, and to cooperatives, nonprofit, limited dividend, or mutual associations." Unlike the situation at the start of the electrification program, there were few areas of any significant size that were not allocated by a State regulatory body to 1 of the more than 5,700 existing telephone systems, many of which were too small to obtain adequate financing to provide the funds needed for overdue replacements and improvements. Through acquisitions, consolidations, and mergers, the number of companies has now dropped to about 2,650.

The following tabulation gives the amount of loans made in the last 5 fiscal years to commercial telephone companies and telephone cooperatives and the percentage of each to the total:

Fiscal year	Loans to cooperatives	Percent	Loans to commercial companies	Percent	Total loans
1959	$21,695,000	21.9	$77,228,000	78.1	$98,923,000
1960	30,150,000	28.7	74,850,000	71.3	105,000,000
1961	30,005,000	21.0	112,832,000	79.0	142,837,000
1962	24,671,000	26.6	68,245,000	73.4	92,916,000
1963	27,217,000	31.6	59,040,000	68.4	86,257,000

Farm Versus Nonfarm Telephone Service

REA does not compile information on the number of farms served by its telephone borrowers. In this connection it should be noted that the words "farm" and "farmers" do not appear in the telephone amendment which not only authorizes loans "to furnish and improve telephone service in rural areas" but also authorizes such loans to be made for the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems without regard to their geographical location when "it is determined by the Administrator to be necessary in order to furnish or improve telephone service in rural areas." The term "rural area" is defined in the telephone amendment "to mean any area of the United States not included within the boundaries of any incorporated or unincorporated city, village, or borough having a population in excess of 1,500 inhabitants."

Our records indicate that more than 90 percent of all proposed subscribers will be located in rural areas as defined by the act. It is estimated that about 40 percent of these rural subscribers will be farms with the remaining 60 percent other rural residents and rural business establishments. Although statistics have not been kept on this basis, it is believed cooperatives will be serving proportionately more farms than commercial companies.

Cumulative Loan Data

The listing of cumulative loan data in telephone loan announcements was discontinued in 1960. The present practice is to stress the number of people to benefit from an REA telephone loan, and to close each announcement of a subsequent loan to an existing borrower with a summary of the number of people to benefit from the current and previous loans since this information is believed to be of the most immediate interest to the public.

Detailed information concerning each borrower, including cumulative loan data, is published in an annual statistical report which is available to the public.

EQUITY FUNDS

Generally, additional equity funds are not required for supplemental loans to locally owned and controlled systems to the extent that funds are required (1) to extend and improve telephone service within service areas approved in prior loans or (2) to provide service in new areas which are logical extensions to the present system. As a result, it is not unusual for a rapidly growing locally owned system to show a temporary decline in the ratio of equity to total assets following a supplemental loan despite the constant gradual increase in the amount of total net worth. In special cases, a borrower may be required to provide additional equity funds in connection with a supplemental loan and the amount involved may actually result in an improvement of the existing equity ratio. Generally, however, loan security is based on other factors including the required acceptance of specified managerial and financial controls. These are designed to assure a gradual increase of net worth, both in ratio and amount, once the initial period of unusually rapid growth has passed.

At the end of 1962, all telephone borrowers reported a total net worth of $79.9 million which represented 9.6 percent of their total assets. While this ratio has remained rather stable over the past 5 years, the total amount of net worth has appreciated considerably from the $37.7 million reported at the end of 1958. The composite net worth ratio is influenced by the growth of individual borrowers as well as the increase in the total number of borrowers from 588 at the end of 1958 to 760 at the end of 1962.

ACQUISITION OF PROPERTIES BY TELEPHONE BORROWERS

If a borrower proposes, as a part of a loan application, to acquire, improve, and extend existing telephone facilities; the price to be paid for the acquisition is a matter of primary concern to REA in view of its effect on the cost of service to the borrowers' subscribers and of its relationship to the general level of prices for acquisition by other borrowers. REA will not approve a loan if, in its opinion, the acquisition price is so high to affect the level of rates to be required for the proposed system or the price level for succeeding acquisitions. The use of loan funds is generally limited to the approximate original cost, less depreciation, of the property with the borrower being required to provide additional equity funds for any excess. However, in situations where the market value of similar properties, as well as the value to the borrower of the particular property to be acquired to achieve program objectives of area coverage rural telephone service justify it, REA may agree to finance acquisitions in a larger amount.

Mr. WHITTEN. Mr. Clapp, we wish to thank you for a very fine presentation. This is an area in which we are all interested, and it is also an area where there is quite a bit of pushing and pulling. Each case has a different situation and the facts differ, too.

We are glad to have Mr. Baker with us here, too. We have worked with him for many years.

Mr. CLAPP. Mr. Chairman, we appreciate the courtesy and time of the committee.

WEDNESDAY, MARCH 11, 1964.

FEDERAL CROP INSURANCE CORPORATION

WITNESSES

J. N. LUFT, MANAGER, FEDERAL CROP INSURANCE CORPORATION
J. H. MORRISON, DEPUTY MANAGER, FEDERAL CROP INSURANCE CORPORATION
J.P. SKEFFINGTON, DIRECTOR, BUDGET AND FINANCE DIVISION, FEDERAL CROP INSURANCE CORPORATION
N. H. BOLIN, CHIEF, BUDGET BRANCH, FEDERAL CROP INSURANCE CORPORATION
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Gentlemen, we turn now to the Federal Crop Insurance Corporation. We would like to have pages 182 through 200 of the justifications included in the record at this point.

(The material requested follows:)

FEDERAL CROP INSURANCE CORPORATION

PURPOSE STATEMENT

The Federal Crop Insurance Corporation is a wholly owned Government Corporation created February 16, 1938 (7 U.S.C. 1501), to carry out the Federal Crop Insurance Act. The purpose of this act is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for research and experience helpful in devising and establishing such insurance.

Crop insurance offered to agricultural producers by the Corporation provides protection from losses caused by unavoidable natural hazards, such as insect and wildlife damage, plant diseases, fire, drought, flood, wind, and other weather conditions. It does not indemnify producers for losses resulting from negligence or failure to observe good farming practices.

The 1964 crop insurance program will operate in 1,196 counties furnishing insurance coverage of approximately $566 million on apples, barley, beans, cherries, citrus, combined crops, corn, cotton, flax, grain sorghum, oats, peaches, peanuts, peas, potatoes, raisins, rice, safflower, soybeans, sugarbeets, tobacco, tomatoes, and wheat. It is estimated that 465,000 crops will be insured for the 1964 crop year, as compared to 418,077 for the 1963 crop year.

A summary of insurance operations and changes in capital for fiscal year 1963, and estimates for the fiscal years 1964 and 1965 follows:

	1963	1964	1965
Net capital at beginning of year	$47,591,483	$41,437,901	$42,363,901
Additions to capital during the year:			
Insurance premiums (net)	21,867,344	30,545,000	34,500,000
Interest and other income	69,195	75,000	75,000
Prior year adjustments	83,426		
Total capital available for insurance operations during year	69,611,448	72,057,901	76,938,901
Deductions from capital during the year:			
Insurance indemnities	23,966,774	24,845,000	25,530,000
Loss adjustment and inspection costs	1,022,084	1,100,000	1,200,000
Administrative expenses charged to program operations	3,017,042	3,505,000	3,649,000
Provision for estimated bad debts	167,647	244,000	276,000
Total deductions from capital	28,173,547	29,694,000	30,655,000
Net capital at end of year	41,437,901	42,363,901	46,283,901

The crop insurance programs are developed and analyzed in the Washington headquarters office and are administered in the field by 4 area offices and 23 State offices. Sales and servicing of contracts at the county level is performed

by private agents under contractual agreements with the Corporation, by Corporation employees hired on a permanent, part-time or w.a.e. (when actually employed) basis, and by ASCS county committee employees in 15 counties (pilot program). Detailed administrative and program accounting and statistical functions are performed by a branch office in Kansas City.

Available funds and man-years, 1963 and estimated, 1964 and 1965

Item	Actual, 1963		Estimated available, 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Administrative and operating expenses:						
Appropriation	$6,714,357	713	$6,944,000	674	$6,942,000	676
Federal Crop Insurance Corporation fund	3,265,250	140	3,505,000	205	3,649,000	218
Total, agricultural appropriation bill	9,979,607	853	10,449,000	879	10,591,000	894
Other funds:						
Agency for International Development, for training services	1,039		1,300			
Miscellaneous reimbursements	7,061	1	2,000			
Total, other funds	8,100	1	3,300			
Loss adjustment cost (nonadministrative and operating expenses) paid from Federal Crop Insurance Corporation fund	1,022,084	130	1,100,000	138	1,200,000	148
Total, Federal Crop Insurance Corporation [1]	11,009,791	984	11,552,300	1,017	11,791,000	1,042

[1] Exclusive of corporate funds, other than those shown above for administrative and operating expenses and for loss adjustment costs.

Administrative and Operating Expenses

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
11 Personnel compensation:			
Permanent positions	3,279	3,941	4,231
Positions other than permanent	874	342	203
Other personnel compensation	29	85	16
Total personnel compensation	4,182	4,368	4,450
12 Personnel benefits	281	317	336
21 Travel and transportation of persons	1,181	937	860
22 Transportation of things	39	35	35
23 Rent, communications, and utilities	399	492	447
24 Printing and reproduction	182	167	171
25 Other services	138	122	121
Services of other agencies	177	339	383
26 Supplies and materials	71	78	79
31 Equipment	64	89	60
Total obligations	6,714	6,944	6,942

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	615	663	647
Full-time equivalent of other positions	199	70	49
Average number of all employees	713	674	676
Employees in permanent positions, end of year	561	626	631
Employees in other positions, end of year	154	54	53
Average GS grade	6.8	6.5	6.8
Average GS salary	$6,435	$6,557	$6,818

Administrative and operating expenses

	Appropriation	Administrative expenses payable from premium income	Total
Appropriation Act, 1964	$7,080,000	$3,505,000	$10,585,000
Activities transferred in the 1964 estimates to "Operating expenses, Public Buildings Service, General Services Administration" for space rental	−22,000		−22,000
Activities transferred in the 1965 estimates to:			
"Salaries and expenses, Office of the Inspector General"	−111,000		−111,000
"Salaries and expenses, Office of Management Services"	−3,000		−3,000
Base for 1965	6,944,000	3,505,000	10,449,000
Budget estimate, 1965	6,942,000	3,649,000	10,591,000
Increase (+) or decrease (−)	−2,000	+144,000	+142,000

NOTE.—The 1965 budget estimate includes $3,649,000 for administrative and operating expenses of the Corporation payable from premium income and $6,942,000 by annual appropriation. For clarity and completeness, the following project statement and justification covers the total estimate required for administrative and operating expenses of the Corporation.

Summary of increases, 1965

Increase in cost of space rent for the Washington office	$28,000
Increase in contract sales and servicing	11,000
For increased pay act costs (Public Law 87–793)	103,000
Net increase	142,000

Project statement

Project	1963	1964 estimated	Increases and decreases		1965 estimated
			Increased pay costs (Public Law 87–793)	Other	
1. Underwriting and actuarial analysis	$1,003,798	$1,099,000	+$15,000	+$3,000	$1,117,000
2. Contract sales and servicing	7,827,289	8,325,000	+73,000	+31,000	8,429,000
3. Crop inspection and loss adjustments	900,312	1,025,000	+15,000	+5,000	1,045,000
Subtotal	9,731,399	10,449,000	+103,000	+39,000	10,591,000
Deduct: Obligations payable from premium income	[1] −3,017,042	−3,505,000	−103,000	−41,000	−3,649,000
Total increased pay act cost (Public Law 87–793)		(108,000)	(+115,000)	(+2,000)	(225,000)
Total available or estimate	6,714,357	6,944,000		−2,000	6,942,000

[1] Excludes $248,208 unobligated balance under the limitation on administrative and operating expenses payable from premium income.

BASIS FOR 1965 ESTIMATE

The 1965 budget estimate is based on the operation of the crop insurance program at approximately the same level as in 1964, with no expansion of the crop insurance program to additional counties or commodities. The following table summarizes the planned program for fiscal year 1965 compared to 1963 and 1964:

Item	1963	1964	1965
Number of counties	1,096	1,196	1,196
Number of county programs	2,378	2,716	2,716
Number of commodities insured	20	22	22
Number of crops insured	418,077	465,000	467,000
Insurance coverage	$498,765,000	$566,000,000	$574,000,000
Insured acreage	13,167,000	14,872,000	15,087,000
Premiums	$30,545,000	$34,500,000	$35,000,000
Indemnities	$24,845,000	$25,530,000	$26,000,000
Loss ratio	.81	.74	.74

NOTE.—Crop years are the same as fiscal years in all tables in the justifications.

The following table shows the county programs offered in fiscal year 1962 and 1963 as compared to the number planned for 1964 and 1965:

County programs and counties

Commodity	1962	1963	1964	1965
Apples		3	3	3
Barley	138	164	177	177
Beans	25	26	32	32
Cherries		1	1	1
Citrus	14	12	12	12
Combined crop	26	26	26	26
Corn	337	380	448	448
Cotton	161	198	224	224
Flax	82	85	89	89
Grain sorghum	27	67	95	95
Oats	86	168	216	216
Peaches	4	19	20	20
Peanuts	4	33	42	42
Peas	1	12	21	21
Potatoes	1	9	22	22
Raisins	7	7	7	7
Rice	6	9	15	15
Safflower			3	3
Soybeans	323	371	436	436
Sugarbeets			6	6
Tobacco	191	212	216	216
Tomatoes		3	5	5
Wheat	534	573	600	600
Total, county programs	1,967	2,378	2,716	2,716
Counties offering insurance	996	1,096	1,196	1,196

Participation summary of crops insured, 1963, 1964, and 1965 crop years

Commodity	Actual, 1963	Estimated, 1964			Estimated, 1965		
		Carry-over	Sales	Total	Carry-over	Sales	Total
Apples	188		200	200		200	200
Barley	22,073	19,000	5,000	24,000	20,000	4,000	24,000
Beans	5,216	4,000	2,500	6,500	5,000	1,500	6,500
Cherries	92		100	100		100	100
Citrus	1,500	1,000	500	1,500	1,000	500	1,500
Combined crops	5,558	4,700	900	5,600	5,000	600	5,600
Corn	67,838	54,000	26,000	80,000	84,000	17,000	81,000
Cotton	26,522	19,000	11,000	30,000	22,000	8,000	30,000
Flax	19,995	17,000	4,000	21,000	18,000	3,000	21,000
Grain sorghum	5,686	4,300	3,700	8,000	6,000	2,000	8,000
Oats	22,084	19,000	6,000	25,000	22,000	3,000	25,000
Peaches	790	600	400	1,000	700	300	1,000
Peanuts	4,302	3,000	3,000	6,000	4,000	2,000	6,000
Peas	1,042	1,000	500	1,500	1,400	100	1,500
Potatoes	590	400	600	1,000	600	400	1,000
Raisins	2,112	2,000	200	2,200	2,000	200	2,200
Rice	98		200	200		200	200
Safflower			500	500	300	200	500
Soybeans	48,537	39,000	17,000	56,000	45,000	11,000	56,000
Sugarbeets			1,500	1,500	1,000	500	1,500
Tobacco	80,482	60,000	23,000	83,000	62,000	21,000	83,000
Tomatoes	124		200	200		200	200
Wheat	103,248	86,000	24,000	110,000	92,000	19,000	111,000
Total	418,077	334,000	131,000	465,000	372,000	95,000	467,000

STATUS OF PROGRAM

The Federal Crop Insurance Corporation is a wholly owned Government Corporation which provides all-risk crop insurance protection against unavoidable causes of loss. The Corporation's objective is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. In 1948, the crop insurance program was placed on a limited basis and offered in a limited number of counties and on selected crops to obtain adequate experience for expansion to a national basis. Expansion during the period 1948–61 was limited. Based on past experience, the Corporation, in 1962, 1963, and 1964 expanded the program to 100 additional counties each year.

Summary of experience, 1948–62

During this 15-year period premiums of $284.4 million exceeded indemnities of $270.6 million by $13.8 million. Premiums exceeded indemnities in 8 of the 15 years since the program was placed on an experimental basis in 1948. The number of counties in which crop insurance is offered has increased from 375 in 1948 to 995 in 1962; and the crops insured from 169,125 to 364,175.

Wheat continues to dominate the Corporation's cumulative experience. Of the total premiums of $284.4 million, $151.4 million or 53 percent was derived from the wheat program. Wheat indemnities were $136.3 million or 50 percent of the total. The loss ratio for wheat for the period is 0.90 compared to 0.95 for all commodities.

The following tables summarize the experience for the period 1948 to 1962 by crops and years:

Summary of experience, by crops, crop years 1948–62

[Dollars in thousands]

Crop	Premiums	Indemnities	Excess of premiums over indemnities [1]	Loss ratio
Barley	$3,133	$2,791	$342	0.89
Bean	2,122	2,405	−283	1.13
Citrus	2,448	8,441	−5,993	3.45
Combined crop	28,497	35,424	−6,927	1.24
Corn	28,966	32,622	−3,656	1.13
Cotton	24,214	23,976	238	.99
Flax	9,824	7,892	1,932	.80
Grain sorghum	98	38	60	.38
Oats	509	373	136	.73
Peas	103	317	−214	3.08
Peach	537	756	−219	1.41
Peanut	194	67	127	.35
Potato	92	198	−106	2.17
Raisin	544	2	542	.01
Rice	44	31	13	.71
Soybean	3,897	2,144	1,753	.55
Tobacco	27,685	16,760	10,925	.61
Wheat	151,446	136,325	15,121	.90
Total	284,353	270,562	13,791	.95

[1] Excess of indemnities over premiums indicated by minus sign (−).

Summary of experience by crop years, 1948–62

[Dollars in thousands]

Crop year	Premiums	Indemnities	Excess of premiums over indemnities [1]	Loss ratio
1948	$12,684	$6,780	$5,904	0.53
1949	11,733	15,531	−3,798	1.32
1950	14,104	12,799	1,305	.91
1951	19,111	21,339	−2,228	1.12
1952	21,201	20,609	592	.97
1953	27,098	31,056	−3,958	1.15
1954	22,655	28,031	−5,376	1.24
1955	22,330	25,504	−3,174	1.14
1956	22,139	27,890	−5,751	1.26
1957	17,407	12,004	5,403	.69
1958	17,616	4,505	13,111	.26
1959	18,462	14,138	4,324	.77
1960	17,797	10,316	7,481	.58
1961	18,149	16,093	2,056	.89
1962	21,867	23,967	−2,100	1.10
Total	284,353	270,562	13,791	.95

[1] Excess of indemnities over premiums indicated by minus sign (−).

Crop insurance continued to be offered in 38 States in 1962. In 21 States premiums exceeded indemnities and in the remaining 17 indemnities exceeded premiums. The following table shows the 1962 crop year experience by States:

Summary of 1962 crop year experience by State

State	Number of insured crops	Insured coverage	Premiums	Indemnities	Excess of premiums over indemnities [1]
		Thousands	*Thousands*	*Thousands*	*Thousands*
Alabama	3,944	$7,063	$362	$804	−$442
Arkansas	712	2,089	137	239	−102
California	2,601	13,622	616	1,160	−544
Colorado	7,712	4,778	603	724	−121
Connecticut	190	224	12	24	−12
Florida	1,432	8,156	558	5,184	−4,626
Georgia	1,502	3,167	232	237	−5
Idaho	5,296	5,641	297	351	−54
Illinois	8,703	4,980	316	113	203
Indiana	8,301	3,331	173	51	122
Iowa	21,374	19,428	1,122	1,006	116
Kansas	21,433	14,005	1,544	211	1,333
Kentucky	16,197	10,099	418	168	250
Louisiana	615	2,397	132	283	−151
Maryland	1,536	1,339	67	15	52
Massachusetts	33	37	1		1
Michigan	5,270	1,530	83	66	17
Minnesota	58,267	34,211	2,055	3,993	−1,938
Mississippi	1,312	6,113	305	304	1
Missouri	11,756	3,101	290	82	208
Montana	6,249	16,351	1,410	1,183	227
Nebraska	10,815	9,614	917	509	408
New Mexico	369	1,011	43	64	−21
North Carolina	28,703	58,246	1,867	2,173	−306
North Dakota	38,440	33,008	2,990	947	2,043
Ohio	14,369	5,929	292	135	157
Oklahoma	7,119	4,460	481	121	360
Oregon	2,999	7,342	261	331	−70
Pennsylvania	2,971	1,707	62	94	−32
South Carolina	4,652	8,152	475	524	−49
South Dakota	17,196	7,405	816	340	476
Tennessee	18,481	7,354	364	228	136
Texas	8,975	15,534	1,136	1,021	115
Utah	236	634	51	35	16
Virginia	11,117	19,519	636	239	397
Washington	2,117	7,761	240	28	212
Wisconsin	10,303	6,526	430	787	−357
Wyoming	878	689	73	193	−120
Total	364,175	356,553	21,867	23,967	−2,100

[1] Excess of indemnities over premiums indicated by minus sign (−).

Operating experience, 1962

In 1962, indemnities exceeded premiums for the first time in 6 years. Indemnities were $24 million compared to $21.9 million premiums for a loss of $2.1 million. The loss ratio was 1.10.

It appeared that the 1962 crop year, was to have been the sixth consecutive favorable year for the Corporation until a heavy freeze in December and January in Florida and California severely damaged the citrus crop. Indemnities of nearly $6 million were paid out of a total liability of about $9 million.

Expansion of the crop insurance program at a more rapid rate was begun in 1962, after 14 years of operating on a limited basis in select counties for the purpose of acquiring adequate experience. Insurance was offered in 100 additional counties and on 3 new commodities, maximum permitted by law. Also, insurance for additional commodities was made available in about 150 of the old counties. For the first time since 1953, the Corporation showed a major increase in the amount of crop protection provided farmers. Total coverage increased from $271.7 to $356.6 million.

In 1962, crop insurance protection was available to producers in 995 counties. The following table shows the distribution of county participation by commodity and State:

Number of 1962 crop insurance programs and counties

State	Wheat	Tobacco	Cotton	Corn	Combined crop	Flax	Beans	Barley	Soybeans	Oats	Rice	Grain sorghum	Citrus	Peaches	Raisins	Peanuts	Peas	Potatoes	Total	
																			Programs	Counties
Alabama			15						3										18	16
Arkansas			9						9		3			2					23	10
California	4		1					4					[1] 1		7				17	9
Colorado	14			5			7	5											31	17
Connecticut		1																	1	1
Florida		5							1				10						16	16
Georgia		19	5											1					25	20
Idaho	20						6	16										1	43	20
Ilinois	30			39					37	2									108	39
Indiana	30			32					32										94	32
Iowa				55	1				54	23									133	55
Kansas	101			13					6			11							131	101
Kentucky	1	48	1						2										52	49
Louisiana			13						2		3								18	13
Maryland	2	3		2				2	2										11	5
Massachusetts		1																	1	1
Michigan	19			17			7		8	2									53	20
Minnesota	18			40	7	33		20	41	24									183	54
Mississippi			22						13										35	22
Missouri	32			38					35										105	38
Montana	21							11											32	21
Nebraska	36			21			3		3										63	46
New Mexico			3																3	3
North Carolina	5	46	20						4							2			77	50
North Dakota	52			1	9	34		32	3	16									147	52
Ohio	32	3		33					30										98	36
Oklahoma	35		3						2			3							43	35
Oregon	11							10									1		22	11
Pennsylvania	4	3		5				4		2									18	5
South Carolina	1	11	19						10					1					42	20
South Dakota	33			17	9	15		18	11	13									116	40
Tennessee	2	32	15	2					7										58	44
Texas	13		35									13	3						64	41
Utah	2																		2	2
Virginia		17		1					2							2			22	19
Washington	13						1	13											27	13
Wisconsin		2		15				2	6	4									29	16
Wyoming	3			1			1	1											6	3
Total	534	191	161	337	26	82	25	138	323	86	6	27	14	4	7	4	1	1	1,967	995

[1] Orange program in California.

Expansion of the program for 1963 and 1964

1. Addition of new counties: For crop year 1963, 100 new counties were added to the program, and 100 new counties will be added for 1964.

2. Expansion of the program to additional commodities. The Federal Crop Insurance Act permits the offering of insurance on three additional commodities each year.

In 1963, new programs were developed and insurance was offered for the first time on apples in three counties, cherries in one, and tomatoes in three. The following table reflects the experience by crops for these commodities:

	Number of crops insured	Premiums (estimated)	Indemnities (estimated)
Apples	188	$164,000	$46,000
Cherries	92	35,000	165,000
Tomatoes	124	25,000	9,000

Plans are being made to offer insurance on safflower, and sugarbeets in several counties for crop year 1964.

3. Insurance protection is being expanded in old counties by offering insurance on additional commodities. For crop year 1964 approximately 137 new county programs will be allocated in about 120 old counties.

Program operating statistics

The following tables show statistical data by commodities for the past 5 years. The 1963 crop year data are estimated:

APPLES [1]

Item	Crop year				
	1959	1960	1961	1962	1963
Number of States					1
Number of Counties					3
Number of crops insured					188
Insurance coverage (thousands)					$2,378
Number of indemnities					11
Premiums (thousands)					$164
Indemnities (thousands)					$46
Excess of premiums over indemnities (thousands) [2]					$118
Less ratio					.28

BARLEY

Number of States	12	12	12	12	13
Number of counties	84	99	109	138	164
Number of crops insured	9,334	13,841	14,296	19,253	22,073
Insurance coverage (thousands)	$6,264	$5,823	$6,263	$8,421	$12,214
Number of indemnities	2,101	919	2,778	2,078	2,538
Premiums (thousands)	$527	$513	$612	$877	$1,156
Indemnities (thousands)	$567	$356	$934	$707	$1,203
Excess of premiums over indemnities (thousands) [2]	−$40	$157	−$322	$170	−$47
Less	1.08	.69	1.53	.81	1.04

BEANS

Number of States	6	6	6	6	6
Number of counties	20	22	23	25	26
Number of crops insured	3,749	5,280	4,705	4,928	5,216
Insurance coverage (thousands)	$2,589	$2,418	$2,390	$2,732	$3,903
Number of indemnities	373	285	238	739	238
Premiums (thousands)	$113	$136	$163	$185	$253
Indemnities (thousands)	$103	$80	$89	$374	$137
Excess of premiums over indemnities (thousands) [2]	$10	$55	$74	−$189	$116
Loss ratio	.91	.59	.54	2.03	.54

See footnotes at end of table, p. 88.

CHERRIES [1]

Item	Crop year				
	1959	1960	1961	1962	1963
Number of States					1
Number of counties					1
Number of crops insured					92
Insurance coverage (thousands)					$325
Number of indemnities					113
Premiums (thousands)					$35
Indemnities (thousands)					$165
Excess of premiums over indemnities (thousands) [2]					−$130
Loss ratio					4.77

CITRUS

Number of States	2	2	3	3	2
Number of counties	5	6	10	14	12
Number of crops insured	639	565	593	1,248	1,500
Insurance coverage (thousands)	$4,011	$3,705	$4,118	$9,380	$14,435
Number of indemnities	125	981	624	2,778	363
Premiums (thousands)	$313	$288	$294	$687	$1,097
Indemnities (thousands)	$76	$608	$695	$6,305	$988
Excess of premiums over indemnities (thousands) [2]	$237	−$320	−$401	−$5,618	$109
Loss ratio	.24	2.11	2.36	9.18	.90

COMBINED CROP

Number of States	15	13	7	7	4
Number of counties	61	49	38	26	26
Number of crops insured	26,424	10,050	8,478	6,406	5,558
Insurance coverage (thousands)	$22,319	$16,607	$14,478	$10,531	$11,182
Number of indemnities	4,533	502	1,519	966	580
Premiums (thousands)	$1,288	$867	$849	$572	$604
Indemnities (thousands)	$2,189	$234	$1,048	$435	$245
Excess of premiums over indemnities (thousands) [2]	−$901	$633	−$199	$137	$359
Loss ratio	1.70	.27	1.23	.76	.41

CORN

Number of States	16	15	15	15	20
Number of counties	259	265	272	337	380
Number of crops insured	52,267	52,079	50,872	59,869	67,838
Insurance coverage (thousands)	$53,406	$56,212	$44,838	$55,964	$75,927
Number of indemnities	7,503	10,359	2,214	12,560	6,695
Premiums (thousands)	$3,416	$3,575	$2,756	$3,631	$5,165
Indemnities (thousands)	$2,967	$5,195	$644	$5,504	$2,112
Excess of premiums over indemnities (thousands) [2]	$449	−$1,620	$2,112	−$1,873	$3,053
Loss ratio	.87	1.45	.23	1.52	.41

COTTON

Number of States	12	12	12	12	14
Number of counties	133	142	141	161	198
Number of crops insured	19,910	15,628	15,375	21,312	26,522
Insurance coverage (thousands)	$17,686	$16,513	$17,890	$36,193	$56,401
Number of indemnities	2,102	2,816	5,494	8,279	4,733
Premiums (thousands)	$1,288	$1,191	$1,282	$2,232	$3,551
Indemnities (thousands)	$574	$615	$1,769	$2,759	$2,482
Excess of premiums over indemnities (thousands) [2]	$714	$577	−$487	−$527	$1,069
Loss ratio	.45	.52	1.38	1.24	.70

FLAX

Number of States	3	3	3	3	3
Number of counties	71	73	74	82	85
Number of crops insured	19,066	18,919	17,647	19,286	19,995
Insurance coverage (thousands)	$3,914	$3,925	$3,411	$4,300	$5,917
Number of indemnities	3,459	1,197	2,297	1,485	2,361
Premiums (thousands)	$451	$452	$440	$553	$685
Indemnities (thousands)	$740	$211	$560	$358	$552
Excess of premiums over indemnities (thousands) [2]	−$289	$241	−$120	$195	$133
Loss ratio	1.64	.47	1.27	.65	.81

See footnotes at end of table, p. 88.

GRAIN SORGHUM

Item	Crop year				
	1959	1960	1961	1962	1963
Number of States	3	3	3	3	4
Number of counties	3	3	3	27	67
Number of crops insured	110	90	77	751	5,686
Insurance coverage (thousands)	$54	$96	$15	$1,847	$8,417
Number of indemnities	7	2	4	64	1,024
Premiums (thousands)	$5	$3	$1	$89	$576
Indemnities (thousands)	$1	$1	$1	$35	$473
Excess of premiums over indemnities (thousands) [2]	$4	$2	----------	$54	$103
Loss ratio	.27	.28	.70	.39	.82
OATS					
Number of States	8	7	6	6	11
Number of counties	27	25	24	86	168
Number of crops insured	4,401	5,074	4,908	11,899	22,084
Insurance coverage (thousands)	$1,235	$1,268	$1,214	$3,292	$6,548
Number of indemnities	577	378	716	796	1,937
Premiums (thousands)	$81	$83	$96	$249	$482
Indemnities (thousands)	$80	$54	$121	$118	$291
Excess of premiums over indemnities (thousands) [2]	$1	$29	−$25	$131	$191
Loss ratio	.99	.65	1.26	.47	.60
PEACHES					
Number of States	1	1	1	1	5
Number of counties	1	1	1	4	19
Number of crops insured	87	113	46	359	790
Insurance coverage (thousands)	$318	$343	$117	$2,633	$4,080
Number of indemnities	53	60	25	264	497
Premiums (thousands)	$48	$52	$24	$326	$511
Indemnities (thousands)	$55	$40	$15	$590	$525
Excess of premiums over indemnities (thousands) [2]	−$7	$12	$9	−$264	−$14
Loss ratio	1.13	.76	.63	1.81	1.03
PEANUTS [3]					
Number of States	----------	----------	----------	2	6
Number of counties	----------	----------	----------	4	33
Number of crops insured	----------	----------	----------	1,649	4,302
Insurance coverage (thousands)	----------	----------	----------	$3,822	$9,966
Number of indemnities	----------	----------	----------	213	1,305
Premiums (thousands)	----------	----------	----------	$194	$613
Indemnities (thousands)	----------	----------	----------	$67	$593
Excess of premiums over indemnities (thousands) [2]	----------	----------	----------	$127	$20
Loss ratio	----------	----------	----------	.35	.97
PEAS [3]					
Number of States	----------	----------	----------	1	4
Number of counties	----------	----------	----------	1	12
Number of crops insured	----------	----------	----------	149	1,042
Insurance coverage (thousands)	----------	----------	----------	$2,226	$4,685
Number of indemnities	----------	----------	----------	125	234
Premiums (thousands)	----------	----------	----------	$103	$262
Indemnities (thousands)	----------	----------	----------	$317	$134
Excess of premiums over indemnities (thousands) [2]	----------	----------	----------	−$214	$128
Loss ratio	----------	----------	----------	3.08	.51
POTATOES [3]					
Number of States	----------	----------	----------	1	4
Number of counties	----------	----------	----------	1	9
Number of crops insured	----------	----------	----------	334	590
Insurance coverage (thousands)	----------	----------	----------	$1,738	$6,308
Number of indemnities	----------	----------	----------	129	138
Premiums (thousands)	----------	----------	----------	$91	$316
Indemnities (thousands)	----------	----------	----------	$199	$212
Excess of premiums over indemnities (thousands) [2]	----------	----------	----------	−$108	$104
Loss ratio	----------	----------	----------	2.17	.67

See footnotes at end of table, p. 88.

RAISINS [4]

Item	Crop year				
	1959	1960	1961	1962	1963
Number of States			1	1	1
Number of counties			7	7	7
Number of crops insured			1,467	1,938	2,112
Insurance coverage (thousands)			$10,279	$10,395	$15,430
Number of indemnities			2		385
Premiums (thousands)			$284	$260	$386
Indemnities (thousands)			$2		$1,895
Excess of premiums over indemnities (thousands)[2]			$282	$260	−$1,509
Loss ratio			.01		4.91

RICE [5]

Number of States		2	2	2	3
Number of counties		5	4	6	9
Number of crops insured		189	65	94	98
Insurance coverage (thousands)		$313	$243	$352	$429
Number of indemnities		3	8	7	3
Premiums (thousands)		$15	$11	$19	$22
Indemnities (thousands)		$8	$11	$12	$6
Excess of premiums over indemnities (thousands)[2]		$6		$7	$16
Loss ratio		.58	1.03	.64	.28

SOYBEANS

Number of States	14	14	14	14	24
Number of counties	204	214	227	323	371
Number of crops insured	26,764	28,947	30,683	38,599	48,537
Insurance coverage (thousands)	$8,799	$10,140	$12,373	$19,077	$31,676
Number of indemnities	1,517	1,479	1,366	2,468	3,843
Premiums (thousands)	$602	$671	$803	$1,199	$2,302
Indemnities (thousands)	$265	$376	$432	$804	$1,455
Excess of premiums over indemnities (thousands)[2]	$337	$295	$371	$395	$847
Loss ratio	.44	.56	.54	.67	.63

TOBACCO

Number of States	13	13	13	13	13
Number of counties	160	166	172	191	212
Number of crops insured	72,385	73,224	70,651	75,774	80,482
Insurance coverage (thousands)	$54,241	$58,209	$60,793	$99,718	$111,100
Number of indemnities	3,820	4,852	2,495	6,130	8,791
Premiums (thousands)	$1,699	$2,027	$2,115	$3,304	$3,702
Indemnities (thousands)	$645	$711	$613	$2,615	$3,110
Excess of premiums over indemnities (thousands) [2]	$1,054	$1,316	$1,502	$689	$592
Loss ratio	.38	.35	.29	.79	.84

TOMATOES [1]

Number of States					1
Number of counties					3
Number of crops insured					124
Insurance coverage (thousands)					$367
Number of indemnities					13
Premiums (thousands)					$25
Indemnities (thousands)					$9
Excess of premiums over indemnities (thousands) [2]					$16
Loss ratio					.34

WHEAT

Number of States	24	26	26	26	25
Number of counties	460	480	492	534	573
Number of crops insured	104,327	106,449	100,193	100,327	103,248
Insurance coverage (thousands)	$95,992	$90,357	$93,287	$83,932	$117,077
Number of indemnities	18,830	5,465	17,012	6,554	13,563
Premiums (thousands)	$8,631	$7,924	$8,419	$7,296	$8,638
Indemnities (thousands)	$5,876	$1,828	$9,161	$2,768	$8,212
Excess of premiums over indemnities (thousands)[2]	$2,755	$6,096	−$742	$4,528	$426
Loss ratio	.68	.23	1.09	.38	.95

See footnotes at end of table, p. 88.

SUMMARY

Item	Crop year				
	1959	1960	1961	1962	1963
Number of States	38	38	38	38	38
Number of county programs	1,488	1,550	1,597	1,967	2,378
Number of crops insured	339,463	330,448	320,056	364,175	418,077
Insurance coverage (thousands)	$270,828	$265,929	$271,709	$356,553	$498,765
Number of indemnities	45,000	29,298	36,792	45,635	49,365
Premiums (thousands)	$18,462	$17,796	$18,149	$21,867	$30,545
Indemnities (thousands)	$14,138	$10,316	$16,093	$23,967	$24,845
Excess of premiums over indemnities (thousands)[2]	$4,324	$7,481	$2,056	−$2,100	$5,700
Loss ratio	.77	.58	.89	1.10	.81

[1] No program until 1963.
[2] Excess of indemnities over premiums indicated by (−) minus sign.
[3] No program until 1962.
[4] No program until 1961.
[5] No program until 1960.

Mr. WHITTEN. Mr. Luft, I have said many times that having served in Congress at the time they curtailed the Federal Crop Insurance Corporation, because we were losing our shirts, I didn't believe there would ever be any time when we could make this a workable program. I kept that belief through many years when we had the pilot program. I mention that to say we are all very proud of the tremendous progress that has been made. This now has become more of a national program, far beyond an experimental basis. I say that to commend not only you, but your predecessors, and others in the Department who have worked rather hard to make this a sound program. We still have some problems but we have made remarkable progress.

We shall be glad to have your general statement.

GENERAL STATEMENT

Mr. LUFT. Mr. Chairman, gentlemen of the committee, and Mr. Murphy—I am glad to have Mr. Murphy here with us—it is always a pleasure and a privilege to appear before this committee to discuss the operations of the Federal Crop Insurance Corporation.

TWENTY-FIFTH ANNIVERSARY

In 1963, we celebrated our 25th anniversary by reaching a new high in service to the Nation's economy and the insured farmers by providing nearly a half billion dollars of crop insurance protection to farmers. This protection against loss from unavoidable causes increased by $140,353,000 over the protection provided in 1962.

EXPANSION OF CROP INSURANCE

The service potential of the Federal Crop Insurance has been broadened more since 1961 than during any other period in its history. Expansion of the Federal Crop Insurance in 1963 to a record volume of protection is only a part of the improved service effort, which got underway in 1961. During this period there has been a review of the protection provided, the operating procedures, and contract provisions. Many simplifications and improvements have been made in

the policy and endorsements for the various crops. These are continuing areas of annual analysis, research, and refinement.

CROP INSURANCE EXPERIENCE, 1963

While utilization of the crop insurance service is voluntary on the part of the grower, its potential for service exists only in those counties and on those crops where it is available. In 1963, crop insurance protection was offered in 1,096 counties, 100 more than in 1962. Insurance protection was in operation on 21 different crops, with 20 of these on a separate crop basis, and 1—rye—was insured under the combined crop plan. The three new crops brought into the program on a limited basis in 1963 were apples, cherries, and tomatoes.

Current estimates of crop year 1963 experience show premiums amounting to $30.5 million, an increase of 40 percent over 1962 premiums, and indemnities of $25 million for a loss ratio of 0.82. This experience again proves that despite recordbreaking yields on most crops, thousands of farmers annually face a harvest of a smaller return than the investment they make in their effort to produce the crop. The indemnity payments of $25 million are about equal to the profit of some $100 million of future crop sales. Crop year 1963 will be the sixth year out of the last seven in which the Federal Crop Insurance Corporation will record premiums exceeding the indemnity payments.

CAUSES OF CROP LOSS

Each year Federal Crop Insurance has paid indemnities due to many different specific causes of loss. The following are the major causes of loss for the crop years 1948–62: Drought, 39.1 percent; excessive moisture, 14 percent; insects, 10.9 percent; hail, 10.2 percent; frost and freeze, 10 percent; wind, 5.6 percent; disease, 4.8 percent; and all other causes 5.4 percent. Some of these causes of loss spread their damage over large areas, others are confined to a few counties or even an area within a county. These natural hazards which can range from light to heavy damage could add up to little or no crop production after money, labor, and materials have been spent by the farmer.

STATES WITH OVER A MILLION DOLLAR LOSS

In 1963, the States with losses in excess of a million dollars each were: California which had rain damage to grapes while drying in the sun, suffered only two losses amounting to $2,000 during the first 2 years of raisin insurance. However, in 1963 the amount of loss is expected to exceed a million dollars; Colorado had its wheat affected by a killing freeze on May 18, 1962; Montana, North Dakota, and Kansas had extensive wheat damage caused by drought; Minnesota had heavy corn and soybean damage caused by hail and rain with 100 mile-an-hour winds; Texas had cotton and grain sorghum damage due to hail and excessive rains; and Virginia's tobacco and peanuts suffered extensive damage caused by the worst drought since 1930.

Although, wheat appears to dominate the loss picture in 1963, it must be pointed out that wheat premiums exceeded indemnities which made its loss ratio for 1963 crop year 0.95. The cumulative loss ratio for wheat since 1948 shows that 90 cents of each premium dollar has been used to pay indemnities.

With the exception of California, Colorado, Montana, and Virginia, all other States with over a million dollars of losses in 1963 had premium earnings which exceeded indemnities.

During the 16-year period, 1948–63, Federal Crop Insurance paid back to the farmers 94 cents of each premium dollar paid to insure crop investments against loss due to causes beyond their control.

PLANS FOR 1964

The crop insurance program in 1964 will include safflower which is a new commodity and will expand to an additional 96 counties. Insurance protection is also being expanded in old counties by offering insurance on additional commodities. For crop year 1964 approximately 131 new county programs will be allocated in about 119 old counties. Crops insured are expected to reach 465,000. Premiums are estimated to increase to $34.5 million bringing the total investments protected up to $566 million. At this point I would like to direct your attention to the map which shows the counties in which we are operating.

The red, green, and yellow counties show the new counties that we have offered crop insurance in for the years 1962, 1963, and 1964. The blue are the counties prior to 1962.

I think we should point out we have pretty well scattered them over the entire United States since 1962.

Mr. WHITTEN. Are any counties which have signed up or expressed their willingness to go into the program and have supplied sufficient evidence that they will have a broad enough base to make it worth while, having to wait for your Corporation to get to them? Or are you able to move into these counties?

Mr. LUFT. I would say that in the crop year 1962 and 1963, the demand far exceeded the 100 counties. I believe I can say in 1964 that we about met the demand. However, we did have a number of counties that we, for lack of information and experience and other reasons, could have gone into.

Mr. WHITTEN. This committee and the Congress has always backed you in moving slowly in this area because we got burned before. We certainly are not being critical. I just wondered, if you were able to meet the demand for your service. From your answer I take it you are.

I might say we would like to have these tables placed in the record.

Mr. LUFT. We will be very glad to do that.

(The information referred to follows:)

New insurance counties—Crop years 1962 through 1964

State	New counties		
	1962	1963	1964
Alabama	Baldwin	Chilton	Crenshaw
		Coffee	Dale
		Covington	Pike
		Geneva	
		Henry	
		Houston	
Arkansas		Howard	Clay
		Jackson	Lonoke
		Johnson	Woodruff
		Lee	
		Mississippi	
California		Modoc	
Colorado	Boulder		
Florida	Escambia	Jackson	
	Hardie		
	Highlands		
	Hillborough		
	Pasco		
Georgia	Appling	Baker	Calhoun
	Atkinson	Early	Clay
	Evans	Jefferson Davis	
	Lanier	Lee	
	Peach	Miller	
		Randolph	
		Tattnall	
		Terrell	
		Toombs	
		Wayne	
Idaho	Bingham	Bannock	Jefferson
		Canyon	
		Caribou	
		Franklin	
Illinois	Coles	Iroquois	Champaign
	Edgar	Jo Daviess	Clark
	Hancock	Logan	Crawford
	Stephenson	Ogle	Cumberland
			De Kalb
			De Witt
			La Salle
			Macon
			Marshall
			Moultrie
			Piatt
			Woodford
Indiana	Henry	Cass	Adams
	Wabash	Fulton	Benton
		Morgan	Grant
		Putnam	Hancock
			Jasper
			Jay
			Tippecanoe
			Tipton
			Warren
			White
Iowa	Bremer	Cherokee	Brenton
	Dickinson	Greene	Blackhawk
	Page	Johnson	Butler
	Palo Alto	Wright	Dallas
	Pochontas		Grundy
			Hamilton
			Iowa
			Jasper
			Jefferson
			Keokuk
			Marshall
			Mills
			Montgomery
			Plymouth
			Woodbury

New insurance counties—Crop years 1962 through 1964—Continued

State	New counties		
	1962	1963	1964
Kansas	Allen		
	Anderson		
	Chase		
	Chautauqua		
	Coffey		
	Crawford		
	Doniphan		
	Douglas		
	Elk		
	Geary		
	Greenwood		
	Jefferson		
	Johnson		
	Labette		
	Lyon		
	Miami		
	Neosho		
	Osage		
	Pottawatomie		
	Riley		
	Shawnee		
	Wabaunsee		
	Wilson		
	Woodson		
Kentucky	Fulton	Lewis	Fayette
	Madison	McLean	Marion
	Ohio	Trigg	
	Shelby		
Louisiana	Evangeline	Madison	Acadia
		Tensas	Calcasieu
		West Carroll	Jefferson Davis
Maryland		Prince Georges	
Michigan	Washtenaw	Oceana	
		Tuscola	
Minnesota	Fillmore	Sibley	Houston
	Freeborn		Scott
	Le Sueur		Washington.
	Olmsted		
Mississippi		Sharkey	Issaquena
Missouri	Barton	Clark	Adair
	Caldwell	Harrison	Grundy
	Lincoln	Knox	Linn
	Montgomery	Lewis	Scotland
	Ray	Livingston	Sullivan
Montana	Stillwater	Glacier	Big Horn
	Toole	Wibaux	Fallon
Nebraska	Burt	Johnson	Franklin
	Otoe	Sheridan	Kearney
		Adams	Knox
		Clay	Nuckolls
		Dixon	Platte
		Fillmore	Webster
		Madison	
New Mexico		Lea	
North Carolina	Craven	Bertie	Chatham
	Halifax	Carteret	Durham
	Haywood	Hertford	Orange
	Hoke	Pamlico	
	North Hampton	Richmond	
	Onslow	Washington	
	Pender	Yancey	
Ohio	Defiance	Clark	Champaign
	Wood	Crawford	Darke
		Fulton	Logan
		Madison	Lucas
		Wyandot	Miami
			Richland
			Shelby
Oklahoma	Craig	Grady	
	Delaware	Payne	
	Mayes		
	Nowata		
	Osage		
	Ottawa		
Oklahoma	Pawnee		
	Washington		
Oregon		Klamath	
Pennsylvania	Dauphin	Cumberland	
	York		

New insurance counties—Crop years 1962 through 1964—Continued

State	New counties		
	1962	1963	1964
South Carolina	Allendale	Barnwell	Saluda
	Hampton	Edgefield	
		Laurens	
		Lexington	
South Dakota	Turner	Yankton	Davison
			Haakon
			Hanson
			Hughes
			Hyde
			Stanley
Tennessee	Cocke	Carter	Crockett
	Dyer	Giles	Henderson
	Jackson	Lincoln	
	Jefferson		
Texas	Fort Bend	Brazos	Cochran
	Wharton	Burleson	Deaf Smith
		Dawson	El Paso
		Parmer	Randall
		Refugio	
		Robertson	
		Terry	
Virginia	Nansemond	Amelia	Prince George
	Southampton	Greensville	
		Isle of Wight	
		Surry	
		Sussex	
Washington		Chelan	
		Okanogan	
Wisconsin	Dodge	Kenosha	Buffalo
	Jefferson	Racine	Dunn
	St. Croix	Waukesha	La Crosse
	Walworth		Pepin

Mr. WHITTEN. You might proceed.

OUTLOOK FOR 1965

Mr. LUFT. The 1965 budget estimates are based on a continuation of the crop insurance program at approximately the 1964 level. No expansion into new counties and commodities is planned for 1965.

In 1965, our goal will be to increase participation within the old counties; and to continue to review the protection provided, premium rates charged; the insurance plans; the operating procedures and contract provisions.

Mr. WHITTEN. Is that at the instance of the Corporation or is that a budgetary limitation placed on you?

Mr. LUFT. Well, I think it would be a good plan for the Corporation, if it slowed down a little, so we don't get on thin ice.

Mr. WHITTEN. Did you ask for funds with which to expand and were they denied by the Bureau of the Budget?

Mr. LUFT. I think later figures will probably point out that we asked for a little more money.

Mr. SKEFFINGTON. We asked the Budget Bureau for $11,665,000, compared to this estimate here of $10,591,000.

Mr. WHITTEN. Did you have any plans to expand your work into new counties and new crops, with that additional money?

Mr. SKEFFINGTON. The justification to the Budget Bureau was submitted with the intention of expanding into 100 additional counties and to offer insurance on 3 additional crops.

Mr. WHITTEN. Can you use this year to look the matter over and to gain a year's experience with what you have? Can you use it advantageously?

Mr. LUFT. My answer would be that we will have requests. We already have requests to go into additional crops for 1965. But as I pointed out here, we think that perhaps we should slow down a little bit and take a good look at our endorsements, premium rates and coverages to be sure we are on sound ground. We hope in 1966 we again can move forward.

Mr. MORRISON. Mr. Chairman, I might add on this that our request for new crops are primarily in the vegetable and tree crop varieties and we feel that we have about as many tree crop programs in existence today as we should have. We must watch our experience, to be sure that the endorsements we are using actually fit the crops.

Mr. WHITTEN. There are plenty of things in this budget that don't seem to be too sound, in my opinion and in the opinion of other members of the committee. I am referring to the allocation of manpower as against money and many other things. We don't buy the Budget's directive in many respects. At the same time, I do realize that this committee some years ago insisted that we had carried this appropriation on long enough to know if it was going to be successful we should begin to make it available to the Nation. I think we initiated the efforts to expand at that time. At the same time we did not want to push you too fast. I can see the situation you are faced with this year where the Congress has more or less insisted that you gradually expand to give all Americans under similar conditions the same advantages and at the same time you need to slow down to digest what you have already done. For that reason we are glad to have you discuss it pro and con, as you have.

Mr. MORRISON. We have had 25 years experience and I feel that we know how to handle the grain crop programs, and I think we will find most of the counties where the crop is a major crop we are in them with an insurance program.

Mr. WHITTEN. You have come a long way since the time when in one area of the country they planted cottonseed on top of the ground that could never sprout, signed up for crop insurance and broke the Corporation. You have improved greatly from that day.

Mr. MORRISON. Yes. In that particular area we now only insure irrigated crops. We had a serious loss there this year, but it was due not to drought, but to hail and late planting. We would have had a more serious loss had not the season extended to where the late planted cotton was harvested. We were fortunate in that respect.

Mr. WHITTEN. You might proceed, Mr. Luft.

Mr. LUFT. As I said before our main objective is to provide the farmers with a good sound crop insurance program.

Certainly we will do a lot of reviewing in 1965 especially on the new crops that we have added.

During 1965 crops insured are estimated to reach 467,000. Premiums are estimated to increase by $500,000 to a total of $35 million. This will increase the crop insurance protection to farmers by $8 million, bringing the total insurance protection up to $574 million.

To carry out our objectives, we are requesting an appropriation of $6,942,000, with authority to pay $3,649,000 from premium income

making a total of $10,591,000 for administrative and operating expenses. Our request is $142,000 higher than the funds available for this purpose in fiscal year 1964. Of this increase, $103,000 is required to place the 1964 Pay Act increase on a full-year basis for 1965, $28,000 for increased rental cost of our office space in Washington, and an increase in sales and servicing cost of $11,000 for a small increase in business.

EXPERIENCE BY CROPS

Attached for your information are bar charts showing experience by crop for the period 1948 to 1963. If I may, I would like to briefly review some of these charts with you.

(The charts referred to appear on pages 96 through 111.)

LOSS RATIO CHART

Mr. LUFT. The first chart is the loss ratio chart, covering the years 1948 to 1963. In 1948, this was the time we were put on the experimental basis. During this 16-year period, premiums have exceeded indemnities for 9 years and losses exceeded premiums for 7 years, for an overall loss ratio of 0.94. That is the last column, right-hand column, on the chart. It shows the various crops for the entire period.

THE 1963 CROP YEAR EXPERIENCE

The chart on page 2 shows the premiums and indemnities for the 1963 crop year, for all crops, showing a premium income of $30,523,000 compared to indemnity payments of $25,072,000 for a loss ratio of 0.82.

YEAR 1948 THROUGH 1963 CROP YEAR EXPERIENCE

The third chart is the premiums and indemnities for all programs since 1948. It shows premiums of $314,876,000 and indemnities of $295,634,000.

Now there is a net difference there of $19,200,000; $17 million of this will have been spent for operating and administrative expenses, and direct cost loss adjustment by June 30, 1964.

Year 1963 shows the largest amount of premiums since we were put on the experimental basis. The rest of the charts show the various crops. I might refer to wheat, which is the major crop insured. For the total period, $160,079,000 in premiums, were earned and $144,546,000 in indemnities were paid.

The bars there will show the years that we paid out more than we took in. If you care to, we can run through the rest of them.

Mr. WHITTEN. The charts speak for themselves and I think that is sufficient.

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION

LOSS RATIOS 1948 - 1963

Program	CROP YEAR																
	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	'48-63
Wheat	.58	1.45	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.90
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.74	.96
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	1.23
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.71	.62
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.02
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	.80
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.08
Citrus					.04			.03	.22	7.25	.15	.24	2.11	2.36	9.18	.90	2.64
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.97	.71
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.93
Peach										.50	.77	1.13	.76	.63	1.81	1.03	1.22
Grain Sorghum												.27	.28	.70	.39	.78	.72
Oat												.99	.65	1.26	.47	.60	.67
Rice													58	1.03	.64	.16	.53
Raisin														.01		3.44	1.39
Pea															3.08	.53	1.25
Peanut															.35	.83	.71
Potato															2.17	2.04	2.07
Apples																.34	.34
Cherries																4.77	4.77
Tomatoes																.43	.43
All Programs	.53	1.32	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.82	94

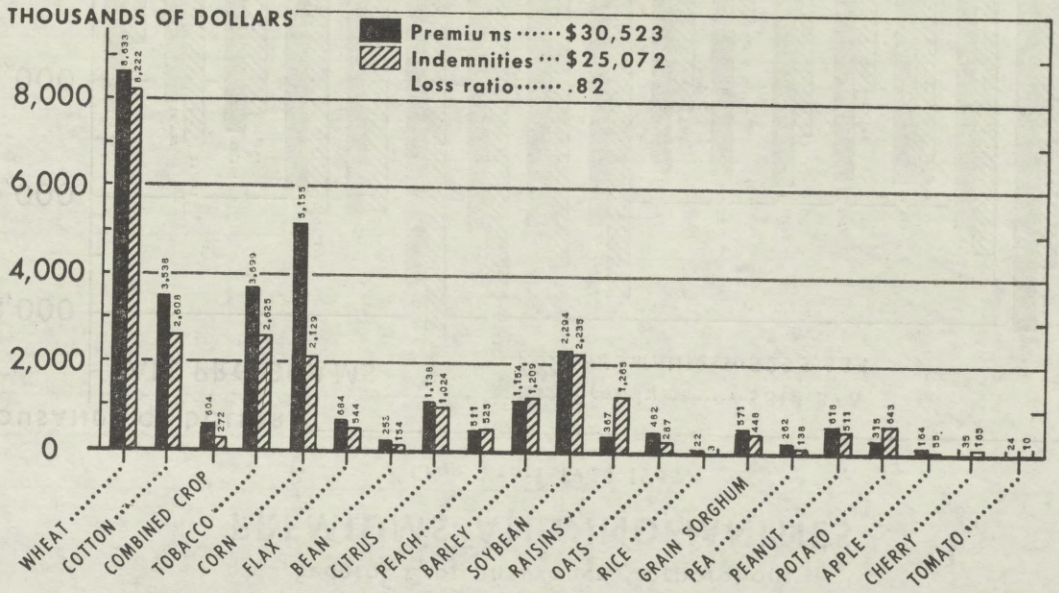
THE 1963 CROP YEAR PREMIUMS AND INDEMNITIES ARE BASED ON JANUARY 3, 1964 ESTIMATES.

PREPARED JANUARY 1964.

United States Department of Agriculture
Federal Crop Insurance Corporation

PREMIUMS AND INDEMNITIES

1963 Crop Year

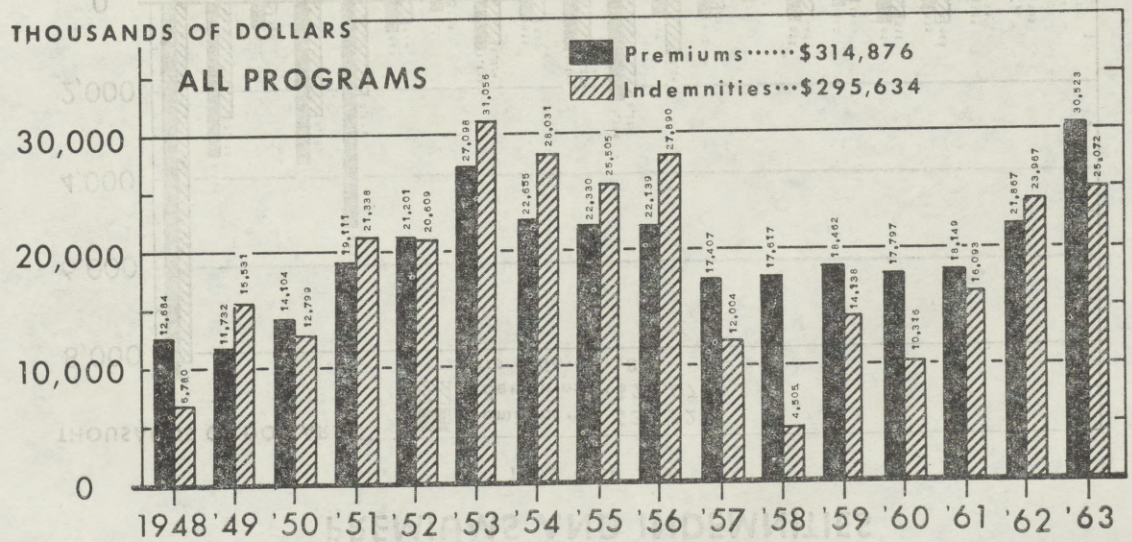


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PREMIUMS AND INDEMNITIES

Crop Years 1948-1963

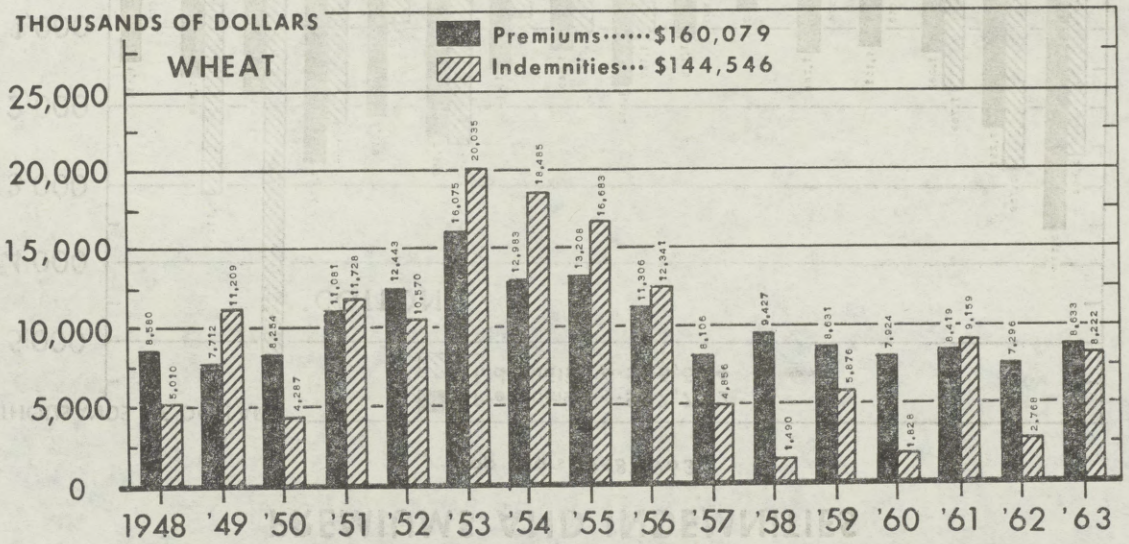


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PREMIUMS AND INDEMNITIES

Crop Years 1948–1963

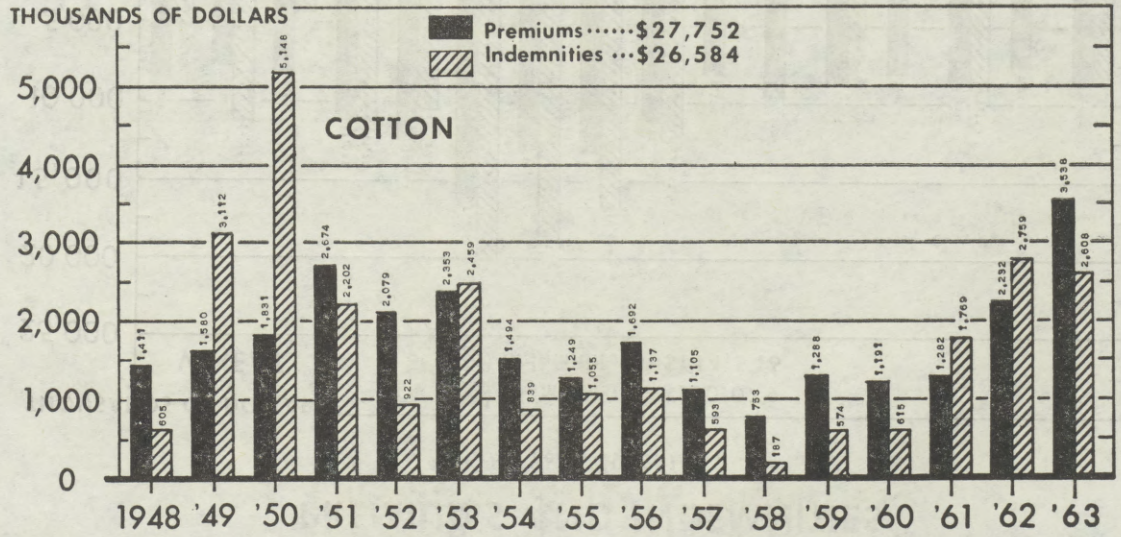


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Federal Crop Insurance Corporation

PREMIUMS AND INDEMNITIES

Crop Years 1948-1963

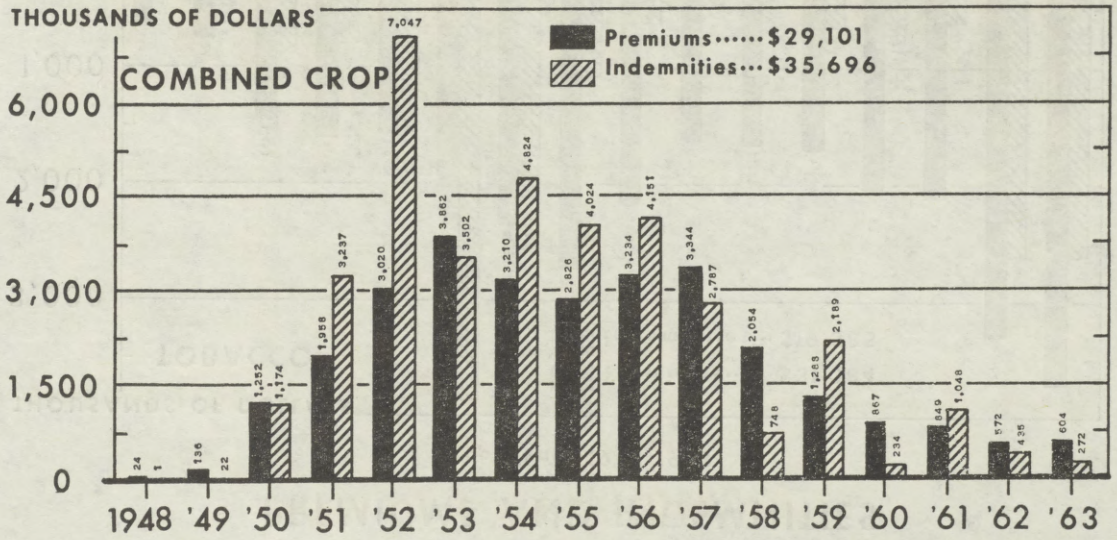


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PREMIUMS AND INDEMNITIES

Crop Years 1948-1963

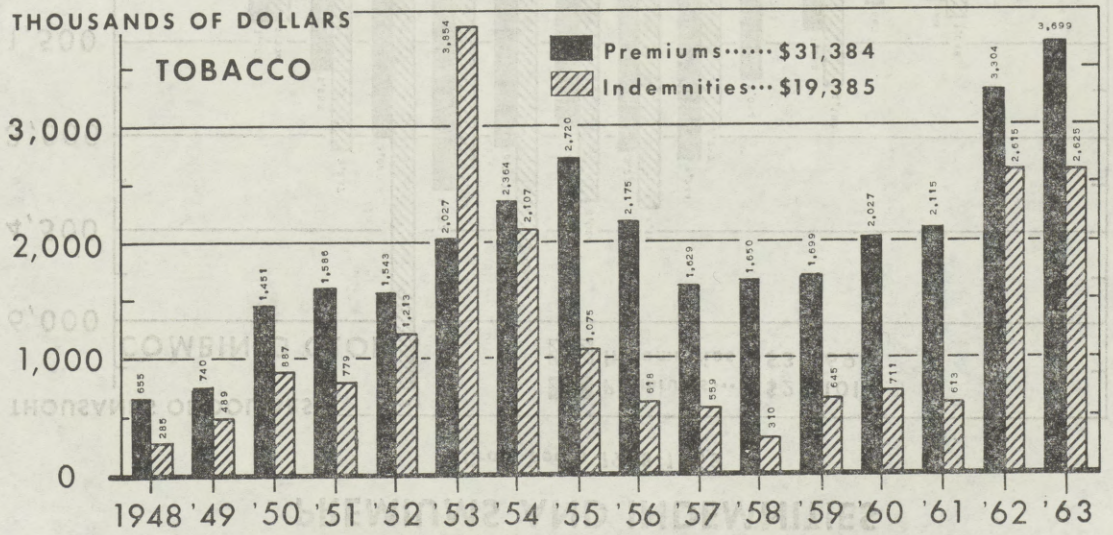


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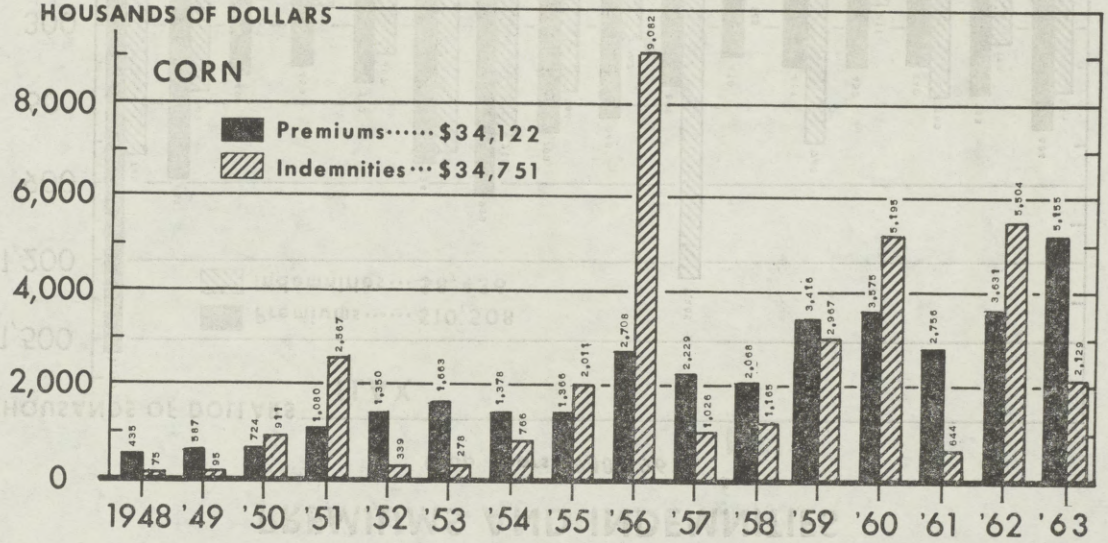


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Crop Years 1948-1963

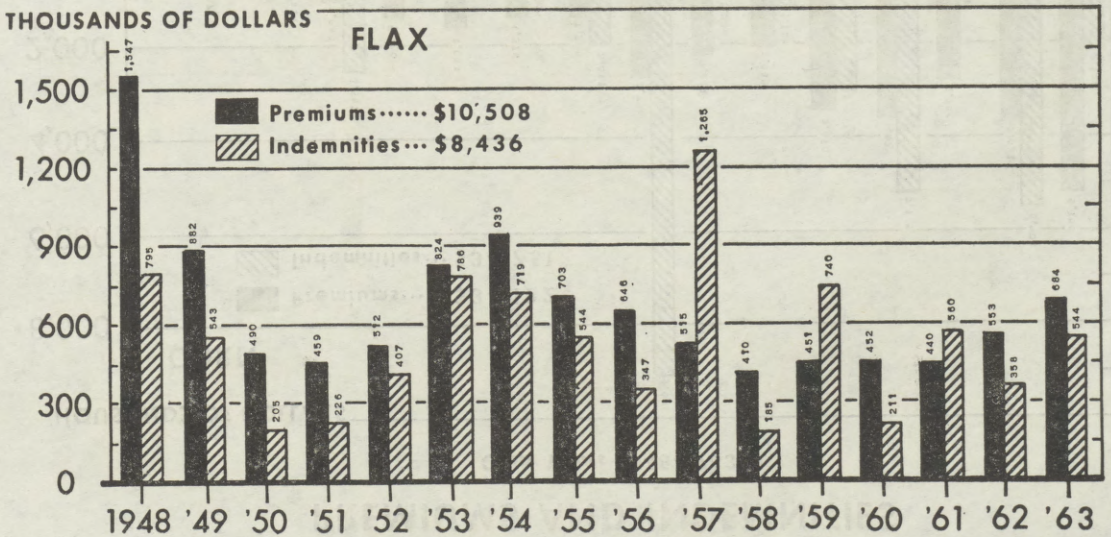


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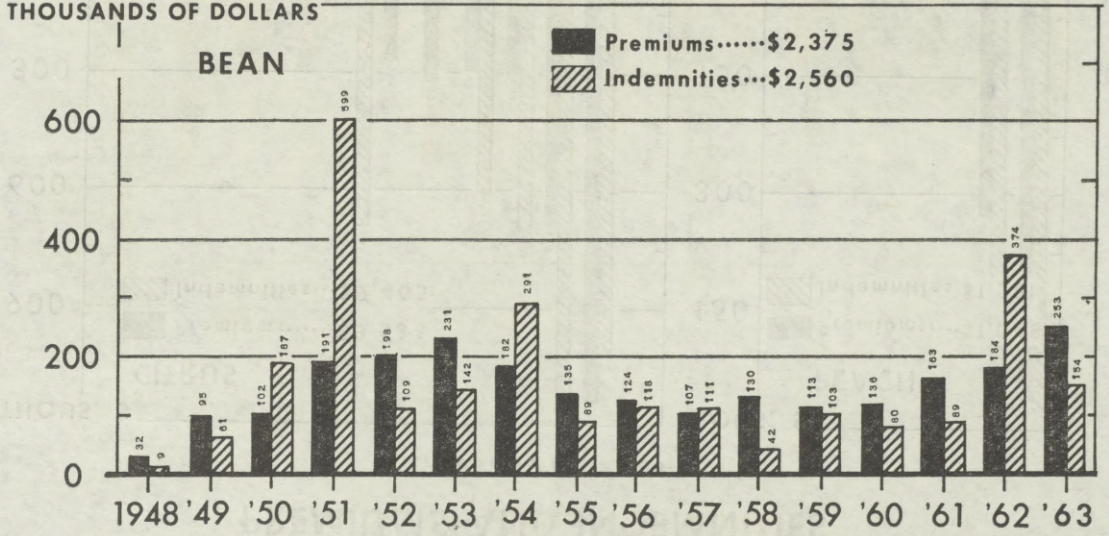


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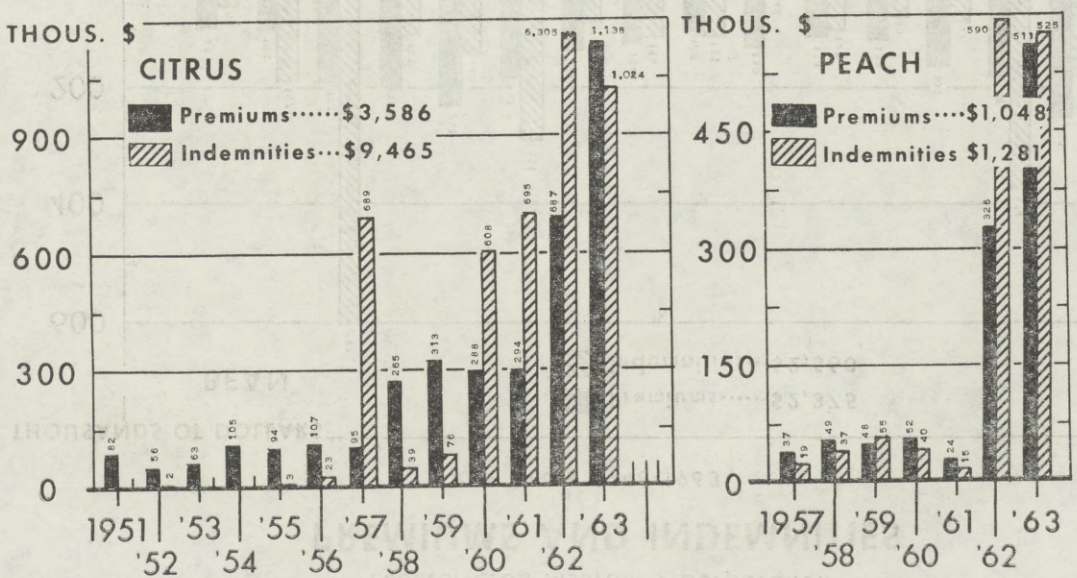


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PREMIUMS AND INDEMNITIES

Crop Years 1951-1963

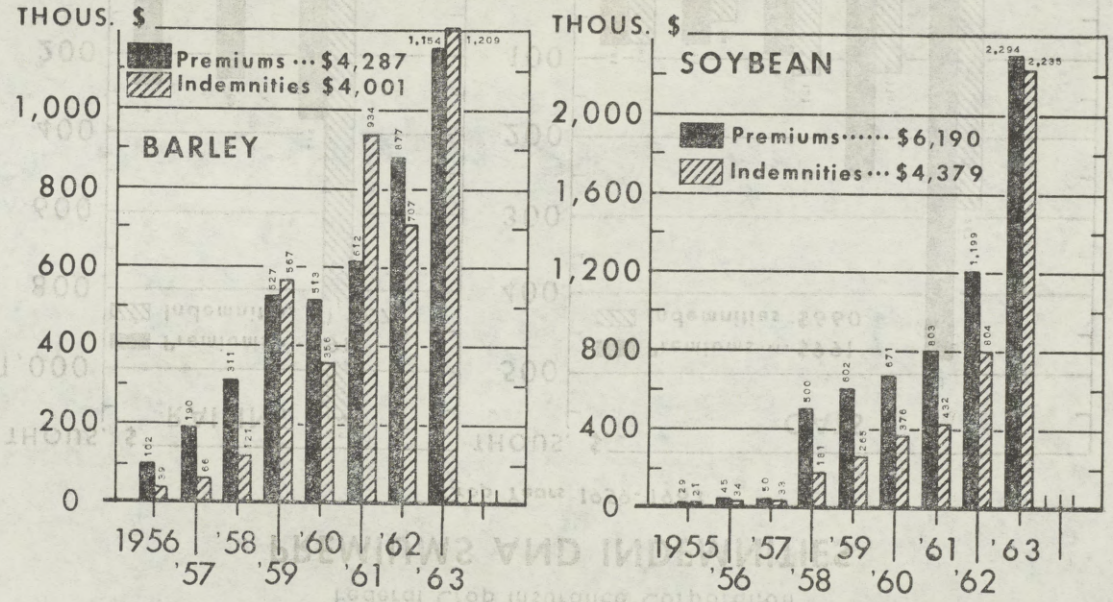


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PREPARED JANUARY 1964

United States Department of Agriculture
Federal Crop Insurance Corporation

PREMIUMS AND INDEMNITIES

Crop Years 1955-1963

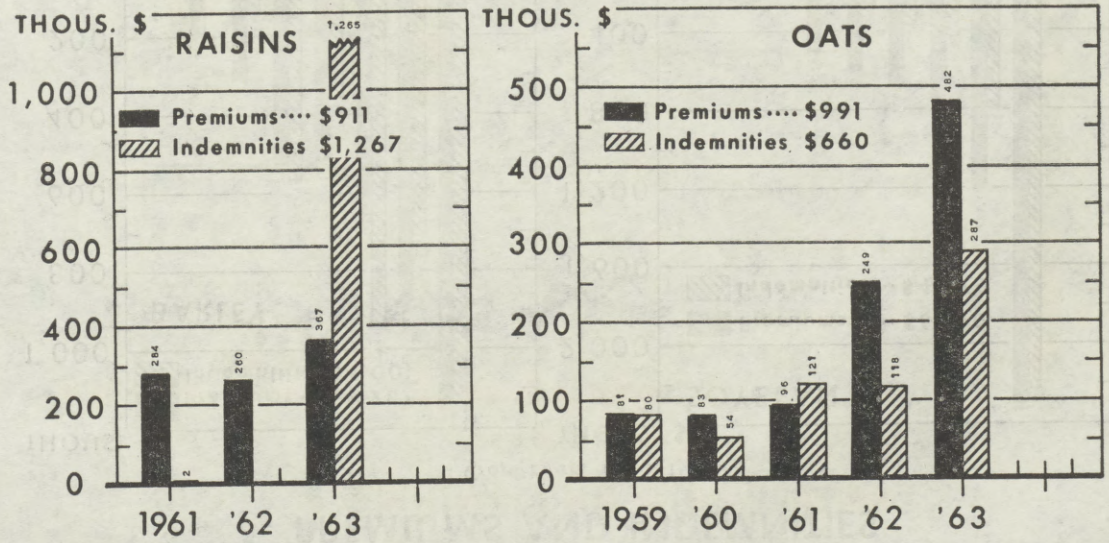


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PREPARED JANUARY 1964

United States Department of Agriculture
Federal Crop Insurance Corporation

PREMIUMS AND INDEMNITIES

Crop Years 1959-1963

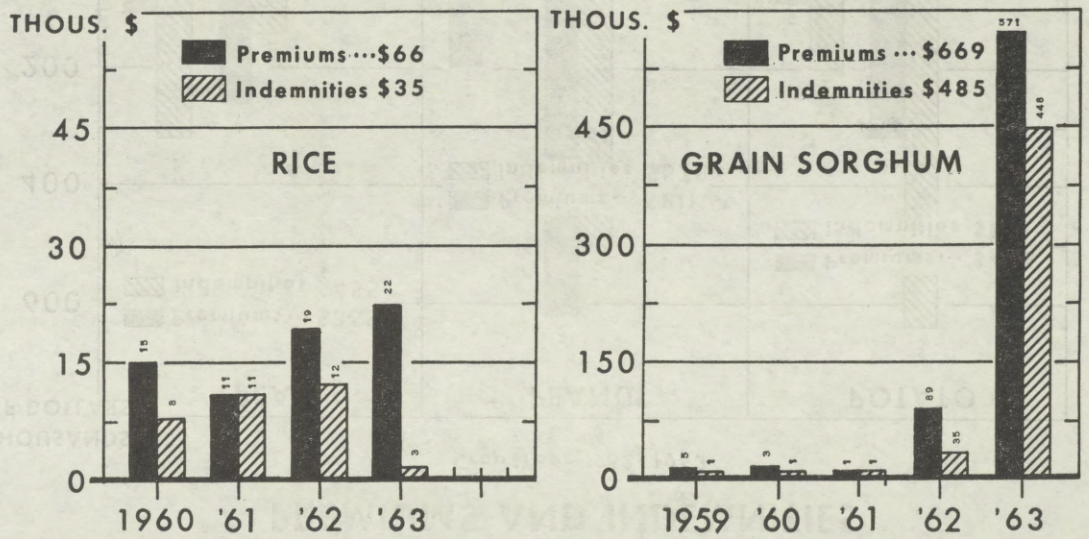


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Crop Years 1959-1963

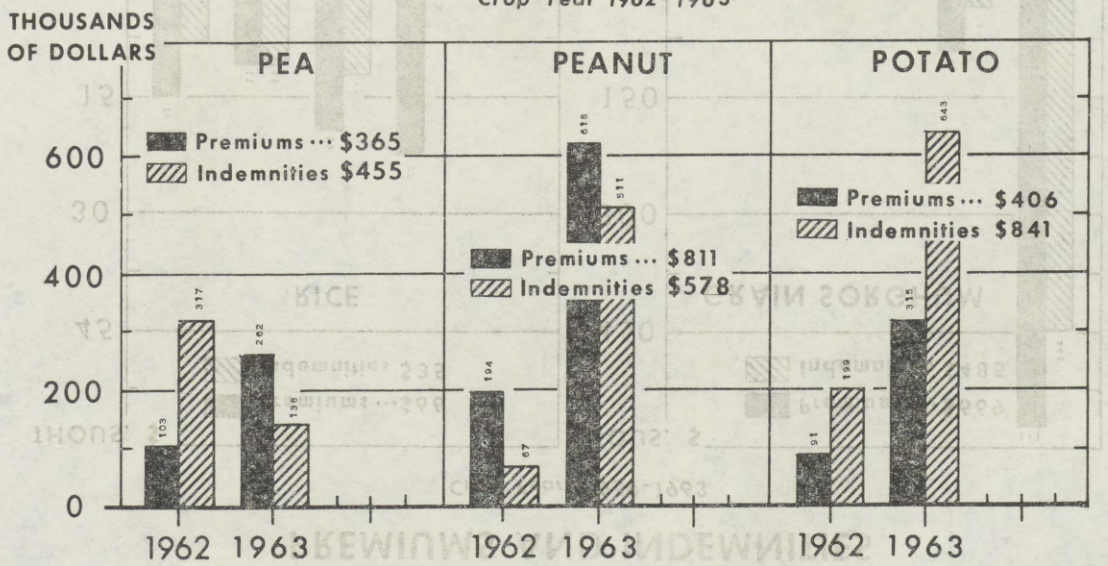


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PREMIUMS AND INDEMNITIES

Crop Year 1962-1963

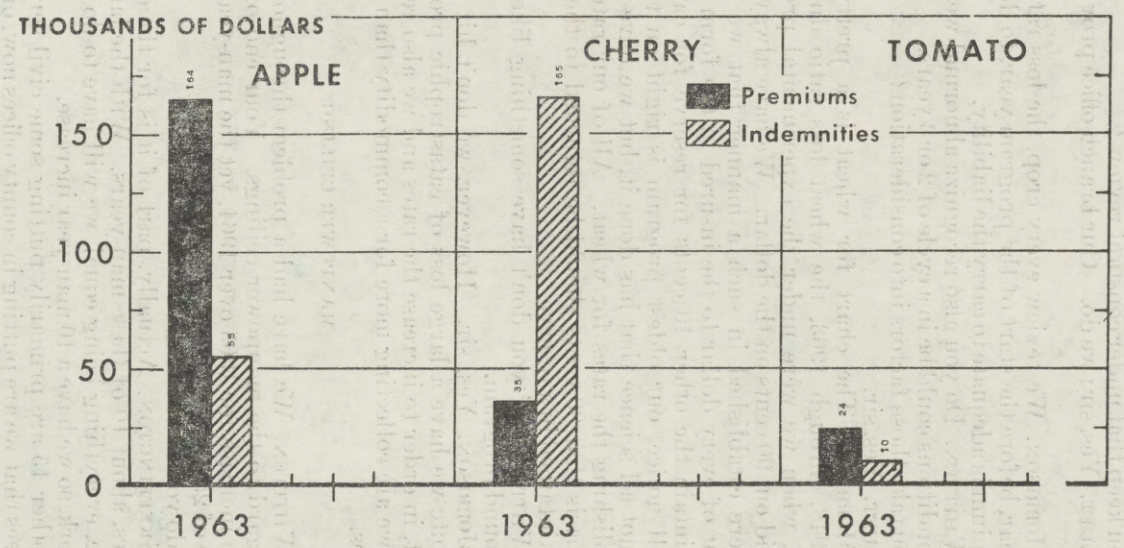


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United States Department of Agriculture
Federal Crop Insurance Corporation

PREMIUMS AND INDEMNITIES

Crop Year 1963



THE 1963 CROP YEAR PREMIUMS AND INDEMNITIES ARE BASED ON JANUARY 3, 1964 ESTIMATES.
PREPARED JANUARY 1964.

31-270—64—pt. 4——8

REVIEW OF PREMIUMS AND LOSSES

How often do you review your premiums as against the losses on a given crop? I notice that with regard to several particular crops the losses have run rather high.

Do you keep that under constant review?

Mr. LUFT. Yes, sir; we do. Our branch office provides us with those figures.

Mr. MORRISON. We review every crop, the loss ratio for every crop every year, before the start of the program year, to determine whether the premium is adequate to carry the liability.

Mr. WHITTEN. Do you also recognize abnormal weather conditions? These conditions could be in a cycle of 2 or 3 years.

Do you take those factors into consideration?

Mr. LUFT. Yes, sir.

Mr. MORRISON. The chart for wheat is a pretty good example. Since 1948, through 1963, the wheat loss ratio during that period of time, when we were under the experimental program phase, we have paid out 90 cents on the dollar. We have always maintained our rates were established in such a manner that we would return 90 cents out of every dollar to the insured in the form of an indemnity, and maintain the other 10 cents for reserve for catastrophic losses. You will notice, our oldest program is right on the nose.

It is not all science that has done it, but we have been pretty close on establishing the rates for wheat. All of our rates are established on the basis that 90 cents should be returned to the insured with 10 cents maintained in a reserve.

Mr. WHITTEN. If you don't have something like that, you won't have a sound program.

Mr. MORRISON. Yes, sir. However, we don't hit the panic button the minute we have a large loss of catastrophic proportion. We do watch it, in order to increase the rates and we also reduce rates too, if we feel we are collecting more for a commodity than we should to pay the losses.

MANPOWER CEILING

Mr. WHITTEN. We have had a problem throughout these hearings with regard to the manpower ceilings. Your end-of-the-year figures show no increase for 1965 over 1964, yet the man-year figures show an increase of 25.

How do you reconcile this?

Mr. SKEFFINGTON. Actually, part of it is for the direct cost of loss adjustors, about 10 of these man-years. With the larger program, we estimate, everything being equal, we will have to do more loss adjustment work, so we have a 10 man-year increase.

The other 15 are primarily putting some civil service county office employees that we are putting in county offices now, on a full-year basis in 1965. Currently the county administration in many cases is being done under contract, and we are paying a monthly amount to these people.

However, lately we have been gradually moving in the direction of getting GS–2 clerks in some of these offices. Since it is about the middle of this year that we are doing some of them, next year they will be on a full-year basis. There is no real increase in funds for this pur-

pose. The money we have under contract is being put into personal services.

Mr. WHITTEN. Thank you, Mr. Luft.

Again we will be glad to have these tables included in the record to the extent you can.

Mr. Natcher?

Mr. NATCHER. Mr. Chairman, I have no questions, but I do want to thank Mr. Luft and the members of his staff for an excellent presentation.

Mr. WHITTEN. Mr. Addabbo?

ADMINISTRATIVE COST

Mr. ADDABBO. Mr. Luft, the money you are asking for your appropriation, is that strictly for salaries, administrative costs, and nothing for compensation for losses under the program?

Mr. LUFT. No; not for losses. It includes the loss adjustment work, the loss adjustors in the field and so on.

Mr. ADDABBO. Could this loss adjustment cost possibly be taken out of the premium dollar rather than direct appropriations?

Mr. LUFT. Direct loss adjustment costs are taken out of premium income.

Mr. SKEFFINGTON. We are currently paying a portion of our operating and administrative costs from premium income, as well as the direct costs of loss adjustment. This budget has $3,649,000 for operating and administrative expenses, to be paid out of premium income and $1,200,000 of direct cost of loss adjustment.

However, our basic act does not provide for inclusion of these costs in the premium rates.

Mr. ADDABBO. You are in no direct competition with private insurance companies, are you?

Mr. LUFT. No other insurance company offers all risk insurance.

Mr. ADDABBO. Thank you.

Mr. WHITTEN. We certainly wish to thank you gentlemen again for your presentation. We have high hopes for this program eventually reaching all counties.

Mr. LUFT. Thank you.

THURSDAY, MARCH 12, 1964.

OFFICE OF THE INSPECTOR GENERAL

WITNESSES

L. P. CONDON, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL
J. WILLIAM HOWELL, ASSISTANT INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL
R. C. CASSIDY, EXECUTIVE ASSISTANT, OFFICE OF THE INSPECTOR GENERAL
MORRIS KAUFMAN, SECTION HEAD, BUDGET BRANCH, DIVISION OF BUDGET AND FINANCE, OFFICE OF MANAGEMENT SERVICES
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. We have with us now Mr. L. P. Condon, Inspector General, Office of the Inspector General. Mr. Condon, we realize we had you with us briefly last year, but since this is your first appearance in support of your separate budget, we would be glad to have you include in the record pertinent information as to your background. You need not present it orally but furnish it for the record.

Mr. CONDON. Yes, sir.

(Biographical sketch follows:)

BIOGRAPHICAL SKETCH OF LESTER P. CONDON, INSPECTOR GENERAL, USDA

Mr. Condon is a native of Mount Vernon, N.Y., and attended senior high school in New Rochelle, N.Y. He has a B.S. degree from Providence College, in Providence, R.I., and has attended Georgetown Law School in Washington, D.C. From 1943–46 he served as an officer in the Navy, commanding an LCI gunboat. He received the Purple Heart.

Mr. Condon was a special agent with the FBI from 1947–51, handling both criminal and national defense cases. In the summer of 1947 he was awarded a Ford Foundation scholarship to attend a program in executive development for Federal administrators at the University of Chicago.

From 1951–53 he was Assistant Chief of Security, Office of Price Stabilization, and from 1953–54 Director of Investigations, House Committee on Government Operations.

In 1954, Mr. Condon became a special assistant to the Administrator, Housing and Home Finance Agency, and served in HHFA posts until 1960 when he became a Deputy Commissioner of the Federal Housing Administration, serving until February 1961, when he was appointed Assistant Commissioner, Audit and Examination, Federal Housing Administration.

From October 1961 to March 1962, Mr. Condon also acted as a special consultant to the Secretary of Labor, making a management appraisal of the Bureau of Labor-Management Reports.

Mr. Condon is married to the former Vera Crossley and they have five children. Their home is at 1306 Janneys Lane, Alexandria, Va.

Mr. WHITTEN. At this point in the record, we would like pages 6 through 15 of the justifications included.

(The material requested follows:)

OFFICE OF THE INSPECTOR GENERAL

PURPOSE STATEMENT

Internal audit and investigation activities are carried out by the Office of the Inspector General which was established by the Secretary of Agriculture's Memorandum No. 1503 dated June 25, 1962, and No. 1524 dated December 21,

1962. The Office is responsible to the Secretary for assuring that existing laws, policies and programs of the Secretary are effectively complied with on every level of administration in accordance with the intent of the Congress and the Secretary. It insures prompt and appropriate corrective action in those areas in which deviation from established law, policy, procedure, rules, or regulations has developed; and conducts internal audit and investigative activities within the Department and coordinates and correlates them with various investigative agencies of the executive and legislative branches of the Government.

Available funds and man-years, 1963, and estimated, 1964 and 1965

Item	Actual, 1963		Estimated, available 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Office of the Inspector General: Salaries and expenses	$8,912,724	804	$9,712,400	825	$9,874,000	825
Other funds: Reimbursements for audit and investigational services related to agency activities performed for other Departments or organizations:						
Agricultural Research Service, primarily for meat inspection	12,000	-------	12,000	-------	12,000	-------
Agricultural Marketing Service, for poultry inspection, grading, classification, and standards	84,442	5	110,600	8	112,600	8
Agricultural Stabilization and Conservation Service for commodity loan service activities	207,585	20	217,000	20	208,000	20
Accelerated Public Works (Department of Commerce	5,467	-------	-------	-------	-------	-------
Total, other funds	309,494	25	339,600	28	332,600	28
Total, Office of the Inspector General	9,222,218	829	10,052,000	853	10,206,600	853

PROPOSED TRANSFER IN THE 1965 BUDGET ESTIMATES

The Office of the Inspector General was established by the Secretary of Agriculture June 25, 1962, pursuant to the Reorganization Plan No. 2 of 1953. This office has been assigned all of the Department's internal audit and investigation functions. These functions were previously assigned to the following offices and agencies:

Agricultural Marketing Service.
Agricultural Research Service.
Agricultural Stabilization and Conservation Service.
Foreign Agricultural Service.
Federal Crop Insurance Corporation.
Federal Extension Service.
Farmers Home Administration.
Forest Service.
Office of Personnel.
Office of Budget and Finance.
Rural Electrification Administration.
Soil Conservation Service.

These functions consist of the following:

Internal audit.—An independent review activity designed to (1) ascertain whether policies, plans, and procedures are adequate and being adhered to, (2) provide management with systematic and objective appraisals of all internal controls and information as to whether operations are carried out effectively, efficiently, and economically, and (3) review and analyze performance for accuracy and conformity with laws and regulations and determine reliability of financial records and reports.

Investigation.—A planned and systematic independent inquiry to ascertain the facts of a situation, generally pertaining to known or alleged irregularities and violations of laws and regulations relating to the operations of agricultural programs.

The assignment of these functions to the Office of the Inspector General was designed to provide essential flexibility, maximize effectiveness of the audit and investigative functions, and serve all levels of management in the Department. It does not affect the responsibility of agency heads for adequate supervision and line inspection necessary for effective administration.

The 1965 budget estimates provide for direct appropriation to the Office of the Inspector General. This appropriation is in lieu of funds heretofore transferred from the appropriations and funds of the Department which financed the work. In the fiscal year 1964 these funds were made available from the following sources:

Agricultural Research Service: Salaries and expenses	$154,000
Extension Service: Payments and expenses	97,000
Soil Conservation Service:	
Conservation operations	114,000
Watershed protection	57,000
Flood prevention	7,700
Great Plains conservation program	4,800
Total, Soil Conservation Service	183,500
Agricultural Marketing Service:	
Marketing research and service	236,000
Special milk program	162,000
School lunch program	374,000
Removal of surplus agricultural commodities (sec. 32)	1,355,000
Perishable Agricultural Commodities Act fund	1,900
Total, Agricultural Marketing Service	2,128,900
Foreign Agricultural Service: Salaries and expenses	110,000
Agricultural Stabilization and Conservation Service: Expenses, ASCS	2,121,000
Commodity Credit Corporation:	
Limitation on administrative expenses	2,389,000
Other (corporate fund)	720,000
Total, Commodity Credit Corporation	3,109,000
Federal Crop Insurance Corporation: Administrative and operating expenses	111,000
Rural Electrification Administration: Salaries and expenses	96,000
Farmers Home Administration: Salaries and expenses	765,000
General Administration	427,000
Forest Service: Forest protection and utilization	410,000
Total	9,712,400

The proposed direct appropriation for the Office of the Inspector General is not intended to cover expenses for internal audit and investigation activities related to work performed for other Government agencies or private organizations. To the extent that internal audit and investigation activities are necessary in connection with work performed by agencies of the Department for outside agencies and organizations, the Office of the Inspector General will be reimbursed for the expenses of its activities related to such work. Reimbursement for internal audit and investigation activities related to services for other agencies and organizations are expected to amount to $339,600 in fiscal year 1964 and include:

(*a*) Meat and poultry inspection performed on a fee basis.

(*b*) Grading, classification, and standards work on agricultural commodities performed on a fee basis.

(*c*) Commodity loan service activities financed by fees from producers.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation			
	Permanent positions	6,432	6,934	7,198
	Positions other than permanent	20	20	20
	Other personnel compensation	61	67	38
	Total personnel compensation	6,513	7,021	7,256
12	Personnel benefits	484	516	524
21	Travel and transportation of persons	1,872	2,005	2,005
22	Transportation of things	39	60	12
23	Rent, communications, and utilities	156	169	158
24	Printing and reproduction	15	68	65
25	Other services	11	57	23
	Services of other agencies	10	32	14
26	Supplies and materials	41	51	83
31	Equipment	79	63	65
41	Grants, subsidies, and contributions	2	10	2
	Total obligations	9,222	10,052	10,207

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	895	924	924
Full-time equivalent of other positions	5	5	5
Average number of all employees	829	853	853
Employees in permanent positions, end of year	892	860	860
Employees in other positions, end of year	5	0	0
Average GS grade	9.2	9.2	9.2
Average GS salary	$8,042	$8,412	$8,412

Salaries and expenses

Appropriations Act, 1964	----------
Transfer from other funds and base for 1965	[1] $9,712,400
Budget estimates, 1965	9,874,000
Increase (for increased pay act costs pursuant to Public Law 87-793)	+161,600

[1] Includes $4,465,900 representing obligations in 1964 under permanent appropriations and corporate funds.

Project statement

Project	1963	1964 (estimated)	Increases		1965 (estimated)
			Increased pay costs (Public Law 87-793	Other	
Internal audit and investigations	$8,912,724	$9,712,400	+$161,600	----------	$9,874,000
Total increased pay act costs (Public Law 87-793)	----------	(161,600)	(+161,600)	----------	(323,200)
Total available or estimate	8,912,724	9,712,400	+161,600	----------	9,874,000

STATUS OF PROGRAM

The Office of the Inspector General was established on June 25, 1962, and assigned responsibility for developing, implementing, directing, and coordinating departmentwide audits and investigations. On December 21, 1962, it assumed the responsibility for all of the Department's internal audit and investigative

function. This function was formerly discharged by the Office of the Inspector General and the internal audit and investigative staffs of the Agricultural Marketing Service, Agricultural Research Service, Agricultural Stabilization and Conservation Service, Foreign Agricultural Service, Federal Crop Insurance Corporation, Federal Extension Service, Farmers Home Administration, Forest Service, Rural Electrification Administration, and Soil Conservation Service. The Office of the Inspector General reports directly to the Secretary of Agriculture.

Selected examples of recent progress

In addition to carrying out the annual audit and investigation programs of the several Office of the Inspector General constituent staffs during fiscal year 1963, extensive studies of organization, workload, staffing, and management systems for the Office of the Inspector General were conducted. These studies were conducted to improve coordination of audit and investigation activities as they relate to Department operations. As a result the recording, communication, and reporting channels of the Office of the Inspector General have been interrelated so that the Office can provide complete and current information on all audit and investigation activities of the Department. Services are now designed to provide comprehensive reviews of programs and administrative activities which cross agency lines. To carry out these objectives the Inspector General, after review of across-the-board departmental needs and consultation with agency heads, determines all areas of emphasis for audit and program investigations and the frequency and scope of these services. Several of the significant results of these studies were:

1. *Regional offices.*—Regional offices were established at New York; Washington; Atlanta; Temple, Tex.; Chicago; Kansas City; and San Francisco, with responsibility for providing coordinated audit and investigative services to all departmental activities within defined geographic areas. The establishment of these offices brought about the consolidation of two or more field offices in each location that previously served and reported to five separate agency staffs (Agricultural Stabilization and Conservation Service-Audit, Agricultural Stabilization and Conservation Service-Investigations, Agricultural Marketing Service, Farmers Home Administration, and Forest Service). Simultaneous with the establishment of the regional offices, the Secretary approved a realinement of functions in the headquarters office of the Inspector General which is directed to a clear delineation and placement of staff and operating responsibilities and communication channels.

2. *Workload inventory.*—In conjunction with agency program people, a complete inventory of all known audit and investigation workload throughout the Department was compiled for the first time. This inventory was used in determining the establishment of the Office of the Inspector General field offices, setting up staffing patterns for these offices, and issuing an annual workload program to each office. An additional benefit of the compilation of this inventory in conjunction with agency program personnel has been a review, evaluation, and examination of the benefits from the traditional areas of audit and investigation coverage and the identification of areas previously unidentified in which significant program-type audit and investigation work may be extremely beneficial to the Department.

3. *Classification and performance.*—Standard job classifications and levels of performance were developed which will bring about uniformity throughout the Office of the Inspector General establishment in positions and grades. This action is designed to facilitate responsive and successful implementation of comprehensive program-type audits and professional quality investigations. The volume, scope, coverage, and significance of the workload were prime factors in these deliberations, as were (*a*) significance and impact of programs within USDA in terms of their effect on national or international agricultural interests; (*b*) the necessity of providing for competitive grade levels in relation to other Government organizations performing similar functions; and (*c*) the desirability of providing a career development program in order to hold, as well as attract, competent employees.

Other examples of changes that have been studied and introduced during fiscal year 1963 or are being readied for introduction as of the close of the year include:

1. *Coordinating reviews.*—Redesign of programs for audit permitting simultaneous review of all USDA activities in one location; e.g., a county or at a

land-grant college. This approach permits audit economies, use of information for audit purposes across agency lines, and more complete review of Department programs which cross these agency lines.

2. *Training in audit techniques.*—New and improved audit techniques on directives and training. For example, increased emphasis is being placed on interviewing techniques for auditors in order to train auditors to "get behind the records" and verify facts and situations through physical inspection and personal contacts with persons doing business with the Department.

3. *Standardizing reports.*—Standardization and improvement of internal audit and investigation reporting techniques and formats. One format for internal audit reports has been designed to replace the 10 formerly in use in the Department. Procedures for reporting are being rewritten to assure meaningful reports to all levels of management.

4. *Improving communications system.*—Improvements in the system for advising the Secretary and all other responsible officials of important audit and investigative disclosures. A special system has been designed to inform these officials immediately of significant disclosures developed at any location throughout the Office of the Inspector General nationwide reporting network.

5. *Scheduling workload.*—Programing of audit work on the basis of first things first with increased emphasis on functional (as contrasted to organizational) reviews and with the objective of utilizing personnel in such a manner as to best carry out audit and investigative services to all levels of management. An annual program for internal audits, susceptible to adjustment as current situations decree, has been developed and issued. Also included in this project is the realinement of audit approach to provide complete coverage of programs regardless of agency lines.

6. *Coordinating activities.*—Provisions for closer review and inspection of internal audit and investigative performance to assure adherence to professional standards. This includes the development of an internal inspection program for the Office of the Inspector General and the installation of a system of administrative reporting which will spotlight for immediate attention internal areas in need of correction or improvement. This also includes establishment of closer coordination between Office of the Inspector General activities and these functions as carried out by other Government organizations; e.g., Department of State on oversea programs, General Accounting Office, Federal Bureau of Investigation, congressional committees, etc.

7. *Collecting and disseminating data.*—Improvement of collection and dissemination of information for use by auditors and investigators, department and agency officials, and other Government agencies. This is being effected primarily through the consolidation of information previously maintained by 11 different audit and investigative staffs. For interregional coordination, data on all audit and investigative starts throughout the country will be maintained in Washington.

8. *Codifying and reporting.*—Establishment of a punchcard system for codifying and reporting audit and investigative disclosures in such a manner as to readily reflect patterns and trends for consideration by Department program officials and to identify needs for redirection of audit and investigative effort in the Office of the Inspector General. This system has been designed for eventual computer application, when the volume warants such application.

9. *Processing requests and recommendations.*—Improved responsiveness to complaints, allegations, and requests for investigations. Immediate assignment for investigation of allegations which develop during audits. Establishment of a system having departmentwide application to assure that every significant audit recommendation receives timely and adequate attention. This involves specific procedures setting forth time limits and authorities for clearance and action upon audit recommendations.

The number of regular continuing audits and investigations conducted for agency programs throughout the fiscal year 1963 were as follows:

Agency	Number completed	
	Audits	Investigations
Agricultural Stabilization and Conservation Service	3,542	862
Agricultural Marketing Service	958	271
Farmers Home Administration	594	129
Forest Service	61	
Agricultural Research Service	70	22
Foreign Agricultural Service	8	
Federal Crop Insurance Corporation	14	6
Federal Extension Service	67	1
Rural Electrification Administration	9	20
Soil Conservation Service	18	
Total	5,341	1,311

Mr. WHITTEN. Mr. Condon, as I mentioned to the preceding witnesses, through the years our own committee has investigated various and sundry activities in the general field of agriculture resulting many times in improvements and in other cases in prosecution and conviction.

RELEASE OF COMMITTEE INVESTIGATION

This year, we have had the committee investigators investigate the disappearance of wheat in Austria. We had a preliminary report that we released after we deleted the names because we don't want to try anybody in the newspapers or in the Congressional Record.

Subsequent to that we were advised that the Department could not release some of this information to us because, under statute, if they did they would have to make it public. We were told it might interfere with the prosecution in some cases by the Department of Justice.

This leaves us on the committee in a position where we could be very impressive. I sit on the Defense Appropriations Subcommittee, and it is probably more impressive for me to say—I wish I could tell you what I hear behind closed doors—than what I actually know. This leaves us with a greater obligation to see that you do your job and the agency does its job.

We certainly do not wish to interfere in any actions by the Department of Justice. In fact, this committee has helped the Department of Justice many times, as well as the Department of Agriculture. So we are standing by at the moment, as a result of the request of the Department of Justice and the Department of Agriculture.

I mentioned this so that we may be fully informed, not only in your annual appearance, but as these things progress. We want to be kept currently advised to the fullest extent proper under the law.

I think the committee is entitled to hear the full story. I would caution our committee that we are in executive session and unless it is in the printed record, we, in turn, should not in any way refer to it.

Now, with that background, we would like to hear from you.

Mr. CONDON. Mr. Chairman, if I might say one thing that insofar as the committee's investigative activities are concerned, these are recognized as valid activities, and I might say, in my short period of time with USDA I have benefited from your observations and will continue to benefit from your observations, particularly your remarks

referring to the Austrian grain case. As you know the committee has made an analysis of my files and all of my investigations——

Mr. WHITTEN. May I say my previous statement was in error. We got all of the information on Austrian grain. It had to do with the soybean oil matter.

Mr. CONDON. Thank you. As you know, I made everything that was available in this particular area——

Mr. WHITTEN. May I say again, this is no complaint.

Mr. CONDON. I understand.

Mr. WHITTEN. I just want the record to show that we are doing our part.

Mr. CONDON. I also want to show that I understand a very valid interest and, in fact, we appreciate this interest. But now as to the DeAngelis matter, sir, I made everything that was available within the law, and, incidentally, the prohibition wasn't a decision made on my part, but a decision based on the General Counsel's opinion as to the CEA statute involved.

Now, there is also, as you know, a letter that Assistant Attorney General Miller wrote which was used also as a basis for declining certain material that was asked for by your investigators.

Mr. WHITTEN. Since this matter has come up, and may I repeat again, we will see that the record is made completely accurate in my opening statement, but I think it would be well, since it has been touched on, that those two letters be made a part of the record at this point. The committee is finding no fault at all in trying to keep the facts straight.

(The letters referred to follow:)

JANUARY 11, 1964.

Hon. ORVILLE L. FREEMAN,
Secretary of Agriculture,
Washington, D.C.

DEAR MR. SECRETARY: Reference is made to my letter dated December 20, 1963, in which you were advised of the committee's directive to this staff to make inquiry into recent developments involving alleged irregularities in commodity trading in soybean and cottonseed oils.

As you know, the directive calls for the staff to develop information with respect to (1) names and locations of all individuals and organizations involved in such transactions; (2) quantities and value of commodities involved, with detailed information on purchase and sales prices and profits involved; (3) legal action taken or expected against these involved; (4) additional legislation needed to prevent similar transactions in the future; and (5) other significant and pertinent information.

Upon initial inquiry by the staff on January 10, 1963, within the Commodity Exchange Authority (CEA) of the Department, uncertainty was expressed as to the extent to which CEA files could be made available, or disclosures made through interviews with CEA officials, in view of the pending legal proceedings and the instructions issued CEA by the Department of Justice in connection therewith. CEA officials asked that a formal request be submitted outlining the data needed.

To respond to the committee's directive, the staff will require full access to CEA files and personnel, both at headquarters and in the field, including but not limited to—

1. All correspondence and files relating to Anthony DeAngelis and firms owned, controlled, or in which DeAngelis has had or may now have a financial interest, as well as any other firms or individuals known or suspected to be involved in these irregularities.

2. Copies of investigative reports prepared by CEA, by the Office of the Inspector General, or by any of the exchanges, including the committees of the exchanges, relating to the commodity activities of such firms and individuals.

3. Copies of correspondence between CEA and all warehouses relative to warehouse receipts relating to the inventories of such firms and individuals.

4. Copies of all tabulations prepared by CEA or any of the exchanges showing the commodity tradings by such firms and individuals.

5. A list of individuals and firms known to CEA as being involved with Anthony DeAngelis (or with other firms or individuals known or suspected to be involved in the irregularities) in his commodity transactions, and identification of the nature of such relationship.

6. Copies of legislative suggestions proposed or recommended by the Department to amend the Commodity Exchange Act, including any new proposals now being planned (1947 to date).

7. Any other information which USDA deems important in assisting this staff in fulfilling the request of the House Appropriations Committee.

Sincerely yours,

_____,

Director, Surveys and Investigations, House Appropriations Committee.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE INSPECTOR GENERAL,
Washington, D.C., January 28, 1964.

_____

Director, Surveys and Investigations, House Appropriations Committee, House of Representatives, Washington, D.C.

DEAR MR. WALTERS: This is with further reference to your letter of January 11, 1964, requesting full access to Commodity Exchange Authority files and personnel in connection with an inquiry by the staff of the house Appropriations Committee into recent developments involving alleged irregularities in commodity trading in soybean oil and cottonseed oil, with particular reference to the operations of Mr. Anthony DeAngelis.

This Department desires to cooperate with the committee in every possible way. We regret, however, that due to the restrictive provisions of the Commodity Exchange Act and the fact that several matters relating to the soybean oil and cottonseed oil situation are of concern to the Department of Justice, we cannot give your staff access to the files and personnel of the Commodity Exchange Authority, as requested.

As you know, section 8 of the act (7 U.S.C. 12) provides that, for the efficient execution of the provisions of the act, and in order to provide information for the use of Congress, the Secretary of Agriculture may make such investigations as he may deem necessary to ascertain the facts regarding the operations of boards of trade, and may publish, in his discretion, the result of such investigations, "except data and information which would separately disclose the business transactions of any person and trade secrets or names of customers."

Under this provision of the act, data, and information obtained as a result of investigations under the act which separately disclose the business transactions of any person are strictly confidential and may not be divulged, except as authorized by the act in three narrowly defined situations discussed below. Section 8 of the act (7 U.S.C. 12–1) provides that the Secretary of Agriculture "when requested by any committee of either House of Congress, acting within the scope of its jurisdiction, shall furnish to such committee *and make public* the names and addresses of all traders on such boards of trade with respect to whom the Secretary has information, and any other information in the possession of the Department of Agriculture relating to the amounts of commodities purchased or sold by each such trader." (Italic added.) Section 8a(6) of the act (7 U.S.C. 12a(6)) provides that the Secretary is authorized "to communicate to the proper committee or officer of any contract market *and to publish*, notwithstanding the provisions of section 8 of this act, the full facts concerning any transaction or market operation, including the names of parties thereto, which in the judgment of the Secretary of Agriculture disrupts or tends to disrupt any market or is otherwise harmful or against the best interests of producers and consumers." (Italic added.) The only other provisions in the act allowing the disclosure of information and data relate to disclosures concerning a person found guilty of violating the act, in certain administrative proceedings under the act. (See 7 U.S.C. 12, provisos.) These provisions are not applicable at

this time with respect to the operations of Mr. DeAngelis, since no such proceedings have been instituted against him.

As indicated above, none of the provisions of the act would authorize us to allow your staff access to the files and personnel of the Commodity Exchange Authority, although the act would permit us to make certain information available to your committee and the public.

In view of the fact that various matters relating to the soybean oil and cottonseed oil situation are pending in the Department of Justice, we requested the views of that Department concerning what information could be furnished to your committee and made public pursuant to the quoted provisions of the act. The Department of Justice in a letter to this Department dated January 22, 1964, indicated its view that the furnishing of investigative reports, statistical analyses, interoffice memorandums, or other internal memorandums or reports of a similar nature with respect to the current soybean oil and cottonseed oil investigation by this Department could have an adverse effect on criminal prosecutions or civil actions which have been or may be instituted.

The Department of Justice further stated in its letter to this Department as follows:

In response to your specific questions relating to the January 11, 1964, letter from the House of Representatives Committee on Appropriations directed at obtaining full access to the files of Commodity Exchange Authority, we believe that a premature disclosure of that information would impair the pending investigation and may even affect the prosecution of the pending indictment against DeAngelis in the district of New Jersey for violations of the interstate transportation of forged and fraudulent warehouse receipts statute. You have advised us that section 12–1 of title 7, United States Code, requires the Commodity Exchange Authority to make public all information relating to the futures market operations of DeAngelis and corporations allied with him if such information is made available to a congressional committee. In view of the consideration being given to this information by the Criminal Division, we are certain that the interested committee would agree that the evidence upon which an indictment or any other criminal charge may be returned should not be publicized by news media or any other source to the certain detriment of any potential criminal prosecution of DeAngelis or his associates. Such a public disclosure may well be in derogation of the defendant's inherent right to have criminal charges proved beyond a reasonable doubt in a court of law. In that sense, this kind of disclosure may be unfair to a criminal defendant.

In view of the above, I am sure you will understand that this Department cannot give your staff access to the Commodity Exchange Authority files and personnel as requested. Upon termination of the matters of concern to the Department of Justice in connection with the soybean oil and cottonseed oil operations in question, we will be pleased to consider what information may be furnished to your committee and made public pursuant to section 8 and section 8a(6) of the act.

It will be noted that the restrictions of the act concerning disclosures of confidential information are applicable only to the Department of Agriculture and not to private persons or organizations.

The Department presently has under consideration legislative proposals to strengthen the regulatory program under the Commodity Exchange Act. Such proposals have not yet been cleared with the Bureau of the Budget. If and when such clearance is received, we will be pleased to furnish a copy of such proposals to your committee. There is being prepared a list of bills containing other legislative suggestions proposed or recommended to the Congress by this Department in 1947 and succeeding years. We expect to be able to send it to you in a few days. We are sorry that copies of these bills are not available here.

Sincerely yours,

LESTER P. CONDON, *Inspector General.*

Mr. CONDON. I would like to say that the decision, of course, was not made by the Inspector General, but only on advice rendered by the General Counsel and the Assistant Attorney General of the United States, Mr. Miller. Those letters will be made a part of the record.

I would also like to say at this time, this letter that you received, sir, pertaining to the De Angelis affair, also containing the same opinion was rendered to the General Accounting Office, Senator McClel-

lan's Subcommittee on Investigations, the Fountain committee, as I recall, and yours, of course, the Appropriation Committee. So it is not one that was peculiar to this committee in any respect.

It was a judgment that was made to all that had an interest in this matter.

BIOGRAPHICAL SKETCHES

Since this is the first time I have been here, I would like to introduce Mr. Cassidy, my executive officer, who is in charge of housekeeping activities, and at the far left, Bill Howell, Assistant Inspector General, Operations.

Mr. Cassidy has had long experience in administration, and, in fact, was recognized by the Government and given a scholarship for his master's degree at the University of Syracuse. Mr. Howell has had long-time service in the Department of Agriculture. He is an attorney by profession, and an accountant, who has served in the Department of Agriculture for many years, and also had the good fortune of serving in the General Accounting Office. At one time he served as Director of the Internal Audit of FHA.

Prior to joining my staff in this reorganization, he was the Deputy Director of the Agricultural Marketing Service, internal audit and investigative activity.

Now, sir, with your permission, I would like to read a statement that I have prepared for the committee.

Mr. WHITTEN. In connection with the first appearance of these gentlemen, we would be glad to have their backgrounds and experiences inserted in the record at this point.

(The biographical sketches follow:)

BIOGRAPHICAL SKETCH OF ROBERT C. CASSIDY, EXECUTIVE ASSISTANT TO THE INSPECTOR GENERAL

Mr. Cassidy is a native of Johnstown, Pa. He received a B.A. degree from St. Vincent College in Latrobe, Pa., in 1949 and an M.B.A. degree, under Army sponsorship, from Syracuse University, Syracuse, N.Y., in 1961. He served in the U.S. Marine Corps in 1942–45, participating with the 3d Marine Division in the invasions of Bougainville, Guam, and Iwo Jima.

Mr. Cassidy entered the Federal service as a junior management assistant trainee with the Navy Department in 1950. From 1951 to 1954 he was with the Veterans' Administration as a management analyst.

In 1954, he moved to the U.S. Army Audit Agency, serving at their Washington headquarters office until 1957 as a management analyst. In 1957 he was appointed Comptroller of the European region, USAAA, located at Frankfurt, Germany. Mr. Cassidy served in this capacity until seelcted in 1960 as one of the first civilians to attend the Army's graduate course in comptrollership at Syracuse University. He joined the Office of the Inspector General in March 1963.

Mr. Cassidy and his wife, the former J. Lea Myers, of Indiana, Pa., and their six children reside at 13617 Glenoble Drive, Rockville, Md.

BIOGRAPHICAL SKETCH OF J. WILLIAM HOWELL, ASSISTANT INSPECTOR GENERAL, OPERATIONS

Mr. Howell is a native of West Frankfort, Ill. He attended Southern Illinois University, and received an LL.B. from Baylor University, Waco, Tex. He has taken Government-sponsored courses at Syracuse University and the American Management Association. He is a member of the Texas bar and is a charter member of the Federal Government Accountant's Association.

Mr. Howell entered the Federal service as a junior attorney with the Resettlement Administration (predecessor to Farmers Home Administration) in 1935. He remained with FHA until September 1954, during which time he advanced to the position of Director of Internal Audit. From September 1954 until March 1958, he served as a special investigator with the General Accounting Office. In March 1958, Mr. Howell returned to Agriculture as Deputy Director of the Internal Audit Division, Agricultural Marketing Service. In January 1963, he received an outstanding performance award from the Agricultural Marketing Service.

With the establishment of the Office of the Inspector General, Mr. Howell was appointed regional inspector general for the Washington regional office. In January 1964, he was appointed Assistant Inspector General for Operations.

Mr. Howell, his wife, and their two children reside at 1012 North Powhatan Street, Arlington, Va.

Mr. HORAN. Also, your centerfielder.

Mr. CONDON. Mr. Kaufman. I am sorry I overlooked introducing him. Mr. Kaufman is the technical adviser in the preparation of the budget, a very important man, in fact.

Mr. WHITTEN. We will be glad to have his record in there, too.

(Mr. Kaufman's biographical sketch follows:)

BIOGRAPHY OF MORRIS KAUFMAN

Mr. Kaufman was born in New York City, N.Y. After graduation from senior high school, he moved with his family to a farm in Connecticut where he was engaged in the raising and marketing of poultry. He is a career civil servant, and has served 26 years in the Federal Government, all of them in the Department of Agriculture, except for the war years 1942–45. He served in the Air Force in the European, African Middle Eastern Theater, and in the Asiatic-Pacific Theater as an air operations specialist. Mr. Kaufman attended the Benjamin Franklin University and the Columbus University, both at Washington, D.C. He has held progressively responsible positions in the Department of Agriculture. He has been budget officer for the Secretary and staff offices since 1952. He is currently the head of the Budget Section of the Office of Management Services with budgetary responsibility for the Office of the Secretary and Staff Offices, the Office of the Inspector General, and the Office of Rural Areas Development.

GENERAL STATEMENT

Mr. CONDON. Mr. Chairman, I am pleased to be here today to discuss an appropriation for the Office of the Inspector General.

The OIG budget estimate for 1965 requests a direct appropriation of $9,874,000 which is an increase of $161,600 over the funds transferred to OIG in 1964. The additional funds are for increased salary costs pursuant to Public Law 87–793. We are not requesting any program increases for 1965.

PLANS AND OBJECTIVES

In my first presentation to this committee last year as the Inspector General, I briefly summarized the goals and objectives established by the Secretary for our office.

These included:

Serving all levels of management within the Department;

Providing effective coordination of audit and investigative activities in the Department;

Attaining maximum independence and objectivity in reviews and reporting;

Achieving greater flexibility in the use of professional audit and investigative manpower;

Assuring comprehensive reviews of departmentwide activities, regardless of agency lines.

Also included are:

Directing prompt and timely advice to all responsible officials on serious matters;

Acting on all complaints alleging irregularity relating to Department personnel and operations;

Maintaining close working relationships with other Federal Departments and agencies on audit and investigative matters;

Monitoring a system for assuring timely consideration of and action on audit and investigative disclosures.

Last year this committee expressed concern over the role the Inspector General would play in the Department of Agriculture. In view of this concern, and the natural apprehension of operating officials in the Department, I embarked upon an extensive educational program to reassure agency officials that we would maintain the role of a staff office.

At the outset, I visited each agency head to explain the aims and objectives of our new organization. Most recently, we briefed agency heads and their staffs in the working philosophy and procedures that we have introduced in the past year.

In these briefings we reemphasized:

That we will be responsive to the needs and interests of the agencies;

That we will not conduct a clandestine operation;

That we will keep agency officials advised of proposed investigations and of the results of our inquiries;

That we will write our reports in a straightforward manner without hidden or implied meanings;

That we are factfinders and will not compromise either our integrity or objectivity.

Our constant efforts to maintain open and frank communications with agency personnel have reaped their rewards. We have had surprisingly few misunderstandings during the conversion period.

When our office was established it was given the departmental status necessary for independent and objective factfinding and reporting; we were enabled to expand the scope of our activities, to cross agency lines, and to attain an organizational cohesiveness necessary for the effective discharge of comprehensive audits and investigations.

We have not lost sight of these responsibilities and the internal improvements we made were directed to the achievement of these goals. While undertaking the organization efforts described previously we continued to provide normal audit and investigation service to the agencies.

Through January of this fiscal year we had completed 2,546 audits and 812 investigations and recorded recoveries and savings in favor of the U.S. Government of approximately $2 million. In fiscal year 1963 we completed 5,331 audits and 1,718 investigations, and recorded recoveries of approximately $8¾ million.

PROGRAM AUDITS

During this fiscal year we instituted a number of comprehensive program audits designed to provide management with a complete analysis from top to bottom of a given functional activity or project. Typical of these examinations are audits pertaining to the agricultural attaché system; Forest Service recreation activities; rural housing loans and grants, and others.

An additional step we have taken toward better utilization of manpower and more effective evaluation of related activities among various agencies is the prototype "countywide" audit we conducted in Highland and Athens Counties, Ohio, during August and September 1963. In the prototype, we developed a plan and audited all USDA activities throughout the two counties. Based on this experience, plans have been made for wider application of this technique in fiscal year 1965.

The establishment of a single, centralized office has contributed significantly to improving liaison, communications and the flow of information between the Department and other executive and legislative agencies.

We also maintain continuous liaison with Federal, State, and local enforcement agencies and consequently are in a position to respond quickly and efficiently to official requests for information and reports.

In summary, in 1964 we continued to provide service to the agencies, expanded the scope and effect of our services, and absorbed the impact of a major nationwide reorganization, within available manpower resources and funds.

Our plans for 1965 give recognition to significant differences between audit and investigation workloads.

Investigations are performed principally in response to requests or complaints over which we have little or no control. Many investigations are also accompanied by an element of urgency because of the need for administrative or legal action.

The volume and nature of this workload are variable. Annual projections are based upon prior experience and the foreseeable effect of new programs within the Department which may indicate potential investigative workload. On the basis of these factors, we estimate that we will utilize approximately 30 percent of our professional workforce for investigation work in fiscal year 1965.

In the allocation of 70 percent of our professional work force to audit activities, priority will be given to the program and functional audits I referred to previously.

Manpower not engaged in these major program audits will be applied to the performance of cyclical audits of the various organizational entities of the Department, stressing those in which there is an indicated sensitivity, problem, or management request for coverage.

We plan to bring our staff capabilities to bear on those areas and functions that will yield the greatest payout to the Department. We will utilize the capabilities of our management and supervisory personnel to develop and utilize audit techniques that will afford maximum protection to the Department.

In all of our professional effort we will continually emphasize management consciousness. Our field men have, and will continue to be, directed to distinguish between the significant and the trivial; to place themselves in the position of operating personnel; and to avoid second guessing by analyzing a situation as it existed at the time of the decision or action.

It is our belief that by understanding this the OIG staff will be objective, fair, and constructive. We will also continue to stress to our personnel that they make recommendations and provide service without issuing directives or ultimatums; that they take great pains to furnish this service in such a manner that operating personnel will recognize that the Office of the Inspector General is motivated by a keen sense of responsibility to assist management, and not merely criticize.

With your approval, Mr. Chairman, I would like to insert for the record a progress report relative to organization in OIG in 1964.

(The progress report follows:)

PROGRESS REPORT—ORGANIZATION OF OFFICE OF INSPECTOR GENERAL

At the time of last year's hearings, we had initiated a series of comprehensive studies to develop our organization, staffing, operating policies, and administrative procedures. The organization that we adopted is reflected in our organization chart.

On October 1, 1963, seven regional offices were activated. The regional concept, in which a single office is responsible for providing audit and investigation service to all USDA activities in a geographical area, is designed to meet the needs for improved communication and coordination of departmental activities highlighted by this and other congressional committees in the past. Through nationwide cross-referencing and operational control we have linked the efforts of the regional offices to furnish a unified and cohesive system of services to the Department.

Preparatory to the activation of the regional offices we had accomplished the following:

For the first time in the history of the Department a complete inventory of all potential audit and investigation work was compiled. The inventory served as one of the tools for establishing the location of our regional offices at or near the heart of agricultural workload concentrations.

Utilizing the workload inventory we prepared and published a coordinated national audit program for fiscal year 1964 which was onhand for program guidance when our regional offices opened for business.

Recognizing that our success would depend upon the development of a first-rate, professional staff we prepared comprehensive personal history statements and performance appraisals for the approximate 600 professional personnel assimilated from our predecessor organizations in the Department.

These appraisals served as a basis for developing staffing patterns for our offices and for effective assignment of our professional employees.

We developed a complete set of uniform job descriptions for our field auditors and investigators.

Recruitment and training programs have been developed and our merit promotion program for all employees and our training agreements for auditors and investigators have been approved by the Civil Service Commission and placed into effect.

During November, December, and January just passed we developed and conducted a 1-week training seminar at each of our seven regional offices. This seminar has gone a long way in the indoctrination of our employees throughout the country in the aims, scopes, objectives, and professional requirements of service to the Department.

In the area of in-house procedures we have also made considerable progress in meeting the objectives we set out for ourselves at this time last year.

A performance reporting system has been developed and installed which monitors the progress of our nationwide activities against our program goals.

Standardized audit and investigative reporting systems have been installed. Of special significance in fulfillment of the objectives set out by the Secretary for our organization, a system has been designed for nationwide reporting of "significant matters" to the Secretary and all other top management officials in the Department.

This system operates without restriction of traditional agency lines and objectively monitors "significant matters" until an appropriate disposition has been made.

We have also installed a highly accurate and complete centralized files and records system and are currently engaged in the determination of the feasibility and application of our centralized cross-referencing and indexing system to automatic data processing methods and equipment.

In the field of automatic data processing, we are also engaged in the design of a high-speed information retrieval system for the collection of audit and investigative trends and patterns of common deficiencies requiring either agency-wide or departmentwide attention.

Mr. CONDON. Although we have made considerable progress in the effective organization of audit and investigative activities in the Department, many hurdles remain.

For one thing, even though we have an aggressive recruitment program, finding and hiring personnel capable of carrying out these plans is extremely difficult in the present competitive market for auditors and investigators.

Second, we have the difficult task of reorienting the staff to the broad scope of comprehensive auditing demanded by the Budget and Accounting Act of 1950.

Although there are difficulties which we have recognized, we feel that our plans for 1965 are responsive to the law and the needs of the Department, and that they are material, realistic, and attainable.

This concludes my statement, Mr. Chairman. I will be happy to answer any questions you or members of the committee may have.

Mr. WHITTEN. Mr. Condon, thank you. You have expressed yourself rather thoroughly and certainly you present an earnest desire in these fine objectives. You are quite clearly on the road to doing a fine job, in my opinion.

However, centralized handling of these problems is a relatively new approach, in some respects. At the outset you pooled together investigating activities which existed in the Department under yourself as central head?

Mr. CONDON. Yes, sir.

Mr. WHITTEN. We had before us, I believe, the Under Secretary of Agriculture together with others from the Agricultural Stabilization and Conservation Service, and the Commodity Credit Corporation. At that time, we discussed with them the present budget before us which calls for cutting down substantially the number of inspections as well as the type of inspections.

PREVENTION OF IRREGULARITIES

I reviewed with them, and it will appear in the record, a report by our own investigators. Incidentally, at that time our investigators were primarily investigating the storage of grain in the Southwest, because of the laxity of governmental inspection—or rather the infrequent inspection. Many, many people fall to the temptation of selling grain to the point that they did not have on hand the amount that they had contracted to keep on hand for the Government. This was

the amount on which they were being paid storage. They were quite clearly led into violation of the law.

I am trying to understand how they could have done it. Nobody comes around, nobody checks, and with it being apparent that the price of grain was much higher now than it would be in the coming year because of the anticipated large crop, they sold far below the amount they had contracted to keep and were receiving storage rate payments.

Then we had the Korean war. And grain prices, instead of going down—so they could replace this grain which they had feloniously gotten rid of—went up. They couldn't buy it, so they were caught short. The Government lost lots of money in some cases, and people went bankrupt trying to pay the Government. And others went to the penitentiary.

The point I make is that having a good police force—which you are—is not nearly so good as to have a good inspection service to keep these things from happening to start with.

But I mention here again, in print, that it is a lot more sound for us to see that we have adequate inspection, with everybody knowing that we have an adequate investigating staff under you, than for us to let somebody get in trouble and then try to recover for the Government or from the individual, or prosecute and maybe convict him.

Now this is a matter—this is not in your control—this matter of warehouse inspection.

Mr. CONDON. It is relative, Mr. Chairman.

Mr. WHITTEN. I do think you have the obligation, where poor inspection may be a contributing factor to report to your superiors.

Mr. CONDON. I agree, sir, and in fact I might say that your principle of doing away with the temptations of sin, I think, is a good one and has been a very effective one down through the history of mankind.

We also concur that this is a very proper principle of control to utilize. And your concern, I can say to you, is a concern of the Inspector General's Office and we will make this committee's concern in this particular area a part of our plans for the auditing of the warehouse program.

While you are on the subject, sir, about the relativity of your concerns, let me put it, insights that we receive from your committee, last year you expressed a concern of the same type with respect to the integrity of decisions made by the Commodity Credit Corporation.

Mr. WHITTEN. I will interrupt here to say, in all of the years I have been on this committee, I have never heard any claim that anybody in the Department had done anything irregular.

I just point out that the law clearly says that they protect the issuance of crop estimates. At that time there was no similar law, which required a similar procedure for the commodity credit which can throw on the market actual commodities. This was not based on anything I had heard or any charges made, but just a recognition of the difference in treatment in law.

Mr. CONDON. As I recall, that is exactly the statement you used last year. But, nevertheless, it was one we felt reasonably that we should follow up. As a result of that, we did make every effort and looked into every type of situation which, if the facts proved to be

such, would be an overt violation of security. We did not prove anything that would indicate that any individual within the Department had benefitted in any respect or violated any rules and regulations with respect to disclosure of decisionmaking information.

However, once again, getting back to the control aspects, this particular study that was made by my office, and that was responsive to your valid concerns, was made available to the Commodity Credit Corporation. For your information, there is going to be a degree of tightening up made and right now officials of CCC are going over the development of a manual which we feel might reasonably fulfill the needs for this type of control.

Mr. WHITTEN. I hope that we will be kept advised of any regulations that are formulated.

Mr. CONDON. We would appreciate your comments in fact, sir.

AUDIT RESPONSIBILITY

Mr. WHITTEN. Now, you refer constantly to the number of audits of this, that, and the other that your organization makes. Do you have the responsibility of automatically making audits throughout the Department, or do you act upon request? Or do you act upon information? Just what is your assignment insofar as audits are concerned?

Mr. CONDON. Insofar as assignments of the audit program, sir, we are being responsive, No. 1, to the Budget and Accounting Procedures Act of 1950, which, as you know, made it mandatory upon each executive agency to set up systems of controls and accountabilities, and these citations that I recall included the requirement for internal audit. That particular accounting act did not go into a definition of the internal auditing as such, but, nevertheless, in 1957 the Comptroller General did publish principles and concepts of internal auditing, and I might say at this time I feel that we are very much foursquare with those principles and concepts.

I might also say that only recently Chairman Brooks of the House Subcommittee on Government Operations also has made a report available to the Federal establishments concerning auditing, and happily enough we are also in agreement with the committee's report and suggestions as to what should be done in this area. Now more particularly in setting up our program of audit, one, we intend to be responsive to the law. For instance, the law demands, as you know, that for corporations set up under the Congress, like the Federal Crop Insurance Corporation, we have to make at least a balance-sheet audit.

As far as the audit programing, I think, (1) we are responsive to the laws and I use as an example, corporations that are set up under Federal rules, in which we have to make a balance-sheet audit. The Federal Crop Insurance Corporation is one example. On the other hand we are also responsive to the needs of an agency head. For instance, he might have a new program, a pilot project or pilot program, and he feels he wants to get a fair, constructive review of that program. We might have had some other insights into concerns of the Department, such as the chairman here expressed, in the warehouses. I would say that would be the type of thing we would include in our audit program if we were cutting back on physical inspection of facilities. We would make a check to ascertain whether, in fact, this would prove to be penny wise and pound foolish.

Mr. WHITTEN. You might save a lot of money by reading the committee's reports from past years and then you wouldn't have to make that study, in our opinion .

Mr. CONDON. Sir, maybe my opinion would agree with yours, but maybe I could make the cheese more binding if I can prove there are some defalcations as a result.

Mr. WHITTEN. The best way to judge the future is by the past, so I would suggest before you start out that you do study the problems we have had in the Department in years past and what caused them. They are a matter of record and anybody who reads them can see where lax administration, or lax supervision, or lack of inspection quite definitely has led to these things. It stands to reason it likely will again. So make your task more easy in this area, rather than viewing the field after the fact, and see whether it worked or didn't. Certainly you shouldn't get the attitude of waiting to see if somebody is in trouble before you recommend tightening up if a study of the past clearly shows it always has led to trouble.

Mr. CONDON. Mr. Chairman, I might say to you, and my associates here will testify, all of the reports of this committee and other committees of the House and Senate, are always reviewed in infinite detail for the insights and knowledge they will give us.

Mr. WHITTEN. I wish to say I have referred to this committee because we are, quite naturally, more familiar with our own efforts and further, we are aware of our own responsibilities. By referring to our efforts we don't mean to minimize in the least the very fine work through the years that the Government Operations Committee and its various subcommittees have done, as well as the Agriculture Committee and various and sundry others. When I refer to studying our own findings, I don't mean to in any way restrict or limit the value of these other reports. Some of them have been in areas that we haven't dealt with and some of ours have been in areas that they haven't dealt with.

CROPLAND CONVERSION INVESTIGATION REPORT

Mr. CONDON. As an example, sir, your late report on cropland conversion I think has given us a tremendous insight as to what should be included in our future audit. I might say to you that it isn't coincidental that we had already planned to conduct a program audit of cropland conversion, a program audit as opposed to cyclical type of audit.

Mr. WHITTEN. May I say again, I don't know who set this up or who is responsible. But don't let laxities slip into the new programs. Read our investigation of soil bank under the preceding administration or conservation reserve, because everything that is in these new programs was found fault with in that. I make this charge in general because I am not hitting at any particular individual.

REIMBURSEMENTS TO THE OFFICE OF THE INSPECTOR GENERAL

Now turning to specific actions by your Department, we notice you have a certain number of transfers of funds from other departments and agencies. I believe in 1963 you received $332,600 from the Agricultural Research Service, Marketing Service, Agriculture Stabiliza-

tion Service, the accelerated public works program, and the Department of Commerce.

Then in 1964 you established an appropriation for this office. Take up each of the transfers in 1965 and explain to us the nature of the work that you do for them.

Mr. CONDON. Mr. Chairman, I will respectfully defer to the Budget Officer, Mr. Grant, because this concerns a method of financing that deals with trust funds and their handling under the law, and I will defer to him for an explanation.

Mr. GRANT. Mr. Chairman, when we put this budget together, we started out with the objective of providing by direct appropriation, so as to bring the whole budget within the appropriation act, the total funds available to the Office of the Inspector General. However there were three major areas where it was not practical to do this.

The first area consists of audit work connected with funds collected by the Agricultural Research Service from the packers in connection with meat inspection. Since that work is financed by reimbursements, it could not be merged and made a part of the direct appropriation. There was no offsetting adjustment we could make.

The second area has to do with the inspection and grading and poultry inspection work in Agricultural Marketing Service. Much of this work is financed from fees charged to processors, and the only way that we can finance the audit of this work is through using a portion of those fees.

The third area involves loan service charges by the county committees in Agricultural Stabilization and Conservation Service, which are in connection with storage and servicing of commodities under the price support program. There is a certain amount of audit work in connection with that. Again, since that audit work is financed from fees, there was no way in which we could merge it into the appropriation.

Mr. WHITTEN. Thank you, Mr. Grant.

Mr. GRANT. I would like to make another comment for the record, Mr. Chairman. Since these are fee reimbursement activities over which we have no control they may vary during the year and the volume of work may go up or down. The $332,600 shown in this justification is our best estimate at this time.

Mr. WHITTEN. Thank you, Mr. Grant.

AUSTRIAN GRAIN DIVERSION

I say again, that your office has been very cooperative with the investigators of this committee in connection with the Austrian wheat problem. You might describe what part you had in the investigation of the Austrian grain diversion.

Since we have our own report, and since you have cooperated with our investigators, we are more or less familiar with it.

Mr. CONDON. I might say, sir, that it started back in 1962 at which time a review was being made by agency people with the idea of a new program for Austria. In that review administrative people in the Foreign Agriculture Service noticed an inconsistency in statistical records that were before them. They, in turn, made a review through their own vehicle, an administrative inquiry within their own Department on this side and through the attaché over in

Austria, to see if they could resolve these particular inconsistencies. After a number of months they couldn't resolve it and then it was obvious that an investigation, a full-fledged investigation was needed and requested in January of 1963. At that time I was authorized to conduct an investigation. As you know, the Department of State does not have any tailored jurisdiction in this matter. The barter program is not in any sense a foreign assistance program. Nevertheless, in recognition of the Department of State's interest in any matter involving oversea activities or international affairs, we respected a request by the Inspector General of Foreign Assistance, Department of State, to work with us.

From that time on, I might say that they have assigned to us one or two men to work with us in the conduct of what is now known as the Austrian grain investigation. The upshot of it, sir, was that out of a program of approximately 1,100,000 metric tons, we found that 530,000 at this stage, I think, metric tons were diverted to countries other than Austria. As you well know, the grains were destined for Austria, and these grains, of course, were shipped from here at world market prices and shipped to various ports in Europe. Austria is a land-locked country. This was one situation I think that encouraged this type of thing, because the grain arrived in ports other than in Austria and was in turn diverted through a certain amount of dummy operations to other countries—I think, offhand, 10.

Now, one of the most important factors here is that there were five shipments to date that we have been able to prove, I think approximating 25,000 tons shipped behind the Iron Curtain.

I might also add, in view of the fact that the Department of Commerce has an interest in anything that is shipped behind the Iron Curtain, we also collaborated with them and made our records available to them for whatever they were worth. In fact, we made it available by responding to an interest of one of the other committees of the House.

To date, sir, we have located all with the exception of, I think, 7,500 metric tons and I might say that we will probably be able to advise you in the very near future that they have all been located. I doubt from what I have heard in the last day or so that we will identify any further shipments to Iron Curtain countries.

Now, in effect, we have a problem here that, we want to evaluate from several different aspects.

The investigation that we are conducting, that you are well aware of, will be examined for basically three things: (1) From the standpoint of whether title 18 criminal laws of the United States were violated; (2) civil liabilities related to the contractual situations; and (3) administratively what further remedies, what changes in rules and regulations should be made to preclude a thing of this nature of happening again. I might add there is also an interesting situation here, if grain could be diverted in various manners, maybe it could be more than grain diverted into channels, into hands, that would be other than friendly to the Government of the United States. This is another area we are very much interested in.

Mr. WHITTEN. Thank you, Mr. Condon.

Now, we have had called to our attention claims that we have had shortages in shipments to Vietnam, Colombia, and Turkey. Are you familiar with those claims and what is the status?

Mr. CONDON. Mr. Chairman, prior to embarking on Vietnam, Colombia, and Turkey, with your permission I would like to bring up one further point. This is very well appreciated that the committee, in their examination, did not in any way give out names and facts and figures.

I might add at this time that we feel in OIG that we have worked very hard on this and done a very good job, I think, up to the current stage.

I might also say, sir, that it looks like a little bit more than just a review will be made by the Department of Justice in this particular case and it is beginning to form up into some overt action taking place.

GRAIN SHIPPED TO VIETMAN, COLOMBIA, AND TURKEY

Now, in response to your question on Vietnam, sir, I might say that you are referring to, I am sure, a GAO report which in effect reflected, possibly because of the lack of records or a certain segment of the records, that there possibly could be great losses in the title 1 program. Now, it so happens, sir, that GAO report was no surprise to the Department of Agriculture because it came almost coincidentally, it seems, just about the same time, in fact, a little bit later than the time I issued a report on this matter to the Secretary.

Mr. WHITTEN. Mr. Condon, may I say we can appreciate that. We have the highest regard for the head of the General Accounting Office. If I haven't said this here, I did the other day. When we investigated the grain shortages in the Southwest, our investigators, after getting together all of this information, went to the then head of the General Accounting Office to discuss it with him, and he suddenly, the next day, issued an interim report from the GAO. All the information in his report is what our investigators gave him. This is a matter of record and, since that time, I have had occasion to kid him about it. In other words, he got out ahead of the hounds.

You wouldn't go so far as to say that is what occurred, but the dates cannot help but impress you, can they?

Mr. CONDON. Thank you, sir. I don't want to indicate that this is not a very valid interest of the Comptroller General, but——

Mr. WHITTEN. It is also good to be ahead of the hounds some time.

Mr. CONDON. We hope so, sir. I think my people feel that way. Now, as to the factuality of this situation, I dispatched a man to Vietnam and to Colombia, and so on. I can say to you, sir, that in Vietnam we have accounted for every one of the title 1 shipments.

We have accounted for all title 1 shipments and I might also say we have not limited our review of the accountability situation in Vietnam to title 1. We are looking into titles 2 and 3, and at this date I am advised that we are making very fine progress in that area and so far I haven't been advised of any irregularity in that respect so far as these programs are concerned.

Mr. WHITTEN. How about the other two?

Mr. CONDON. Turkey, as yet I haven't had an opportunity to dispatch the necessary people to that area. I have made some review of it and, so far, it hasn't indicated any shortages.

Mr. WHITTEN. Colombia?

Mr. CONDON. The General Accounting Office accounted for the fact that the commodities did arrive in Colombia, and I have also

had an accounting made in Colombia and so far I haven't been put on notice that there is any shortage.

DOCUMENTATION OF FOREIGN GRAIN SHIPPMENTS

Mr. WHITTEN. Mr. Condon, it is mighty hard sometimes to get the Government or anyone else to give the same attention to business transactions, where we are selling products to them for their own currency and have no use for that currency. Where we are getting less than the dollars for our commodities, the general attitude is that there is no need to worry about keeping the books too straight. However, there really is need to worry.

First, we don't want the folks to profit by reason of governmental policy, and we certainly don't want it to be used against what our leaders determine to be our best interests. That is one of the things that leads to some of these problems.

In our report, our folks discussed with you the fact that faulty reporting or at least a poor system of accounting for shipments and things of that sort seemed to have been a contributing factor. What has been done to tighten up the accounting for these commodities from the point of storage to the point of destination? Has there been any improvement in keeping track?

Mr. CONDON. Yes, sir. During the course of the Austrian grain investigation, incidentally, one of the things that was obvious was that there was a lack of documentation, official documentation. We made a recommendation which was implemented by the Foreign Agricultural Service, that from here on out the documentation to be received should be official documentation from the government of receipt, rather than a bill of lading from shipside, or from the port of debarkation, which in this case would be Hamburg, and not from the country of ultimate destination.

We also made recommendations as to reporting procedures to be carried out in those countries that had foreign agriculture attachés. The same procedures we recommended should also be used if the countries are absent a foreign agriculture attaché, and the responsibility for surveillance is with AID, the Food for Peace officer, or the Department of State, and that they utilize the same procedures for, verifying the receipt of the commodity shipments.

At this time, sir, I think this will do a great deal to rule out some of these obvious inconsistencies in reporting and verification.

On the other hand, sir, once again, to use your own phrase, the human equation being such as it is, other devices will build up and we will have to cope with them.

Mr. WHITTEN. Mr. Condon, thank you.

AUDIT OF MARKET DEVELOPMENT ACTIVITIES

Mr. ADDABBO. Mr. Condon, has your Office made a full audit of the accounts of the Foreign Agricultural Service?

Mr. CONDON. Not a full audit of the entire Service. I might say this, we have made an audit and are just completing our report covering the Foreign Agriculture Attaché Service. We have made a very thorough program audit of that.

We are also, for your information, in the late stages of a full accounting of all past FAS audit activities and bringing them up to date. Members of my staff are rendering a report to me as to the disposition of every recommendation that has been made in audit reports from the time auditing started in FAS in 1958 up to date. So I think I will be able to report in definite detail to you as to——

Mr. ADDABBO. The reason I bring that question up—at the last session of Congress, one of our colleagues brought up the question of money being spent by FAS in certain trade promotions.

Mr. CONDON. Market development; yes, sir.

I might say that one of my associates participated with a member of the House Committee on Government Operations in the review of the market development area of the Foreign Agriculture Service. One of the House Members did make a comment as to market development activities and I think in our review—well, allow me to correct myself. I think it is the privilege of the chairman of the committee, House Committee on Government Operations, to make a statement as to what that particular review reflected.

I can say this without creating any anxieties, we found some shortcomings in the review. I think, however, we have taken some very appropriate actions and when it is weighed in the light of the relative merits of the program; namely, the tremendous development of exports from this country, I think, most reasonable people will believe that they are not uncontrollable or go to the substance of the program, only in form.

Mr. ADDABBO. Do you have any copies of that review?

Mr. CONDON. Not at this time. I will be delighted to furnish it to the committee when it is available. All I am saying is that it hasn't been printed yet. I don't want to be premature.

Mr. WHITTEN. It was at the insistence of the other committee.

Mr. CONDON. Mr. Dawson requested a review and asked for assistance of members of my staff. The Secretary was very happy to make a member of the staff available and they made a very intensive review.

Mr. ADDABBO. Your report was filed today.

Mr. CONDON. The report was filed today. Just printed.

Mr. ADDABBO. No further questions.

Mr. WHITTEN. Mr. Horan?

CONSOLIDATION OF AUDIT PROGRAM

Mr. HORAN. Mr. Condon, when you took over this position as inspector general, you assumed the duties previously performed by how many offices and agencies?

Mr. CONDON. Offhand, I think there were about 13 activities, either investigative or audit activities, which we consolidated into 1 operating unit.

But I might add, Mr. Horan, that I am now responsible for the audit and investigative activities of the entire Department. Heretofore these other units only served particular agencies.

Mr. HORAN. That included personnel?

Mr. CONDON. Personnel investigations; yes, sir. I inherited that responsibility.

Mr. HORAN. Included personnel that had been carrying on these duties in the other agencies?

Mr. CONDON. Thirteen activities; yes, sir.

Mr. HORAN. Has this transfer into one central general investigation, or Inspector General's Office, resulted in more or less personnel doing this same type of work?

Mr. CONDON. Let me put it this way, Mr. Horan. It hasn't added more personnel, other than—no, it has not added any more personnel.

Mr. HORAN. Would you give me the figures before and after?

Mr. GRANT. What we did was transfer funds and personnel budgeted for 1964. There was no increase, only a transfer. But we will put a statement in the record showing employment, if you wish.

Mr. HORAN. I wish you would, because it is to be hoped, of course, that you decreased personnel.

(The information referred to follows:)

Office of the Inspector General—Pre- and post-conversion employment

Employment, June 1963:	
OIG staff	32
AMS	175
ASCS (audit)	311
ASCS (investigation)	165
ARS	11
FAS	7
FCIC	6
FES	7
FHA	71
FS	26
REA	7
SCS	13
Total	831

Employment, Feb. 29, 1964:	
Headquarters	111
Region I	63
Region II	94
Region III	121
Region IV	122
Region V	101
Region VI	99
Region VII	91
Total	802

Mr. CONDON. Mr. Horan, as I recall we were authorized a strength of about 860 employees. At the present time we have about 802 employees. We are trying to hire, as you see from my statement——

Mr. GRANT. The justifications show 853 estimated man-years. Mr. Condon is talking about the number of people on the rolls as of February 29.

Mr. CONDON. That's right, sir.

ACTIVITIES BY AGENCY

Mr. HORAN. And your record shows that you have completed 5,341 audits?

Mr. CONDON. Yes, sir.

Mr. HORAN. And 1,311 investigations?

Mr. CONDON. Yes, sir.

Mr. HORAN. By offices and agencies, they are 70 audits and 22 investigations for ARS, for which you were credited $154,000 by transfer from ARS for work that they had previously done themselves.

The Extension Service, you had $97,000 transferred and you completed 67 audits, and made one investigation?

Mr. CONDON. Yes, sir.

Mr. HORAN. What was the one investigation?

Mr. CONDON. Offhand, sir, I couldn't tell you.

Mr. HOWELL. I think I can answer that, Mr. Condon.

That involved a possible shortage or utilization of Federal funds in the State of Oklahoma at the university where an employee in the cashier's office at the university had used funds which represented payments received from the sale of documents printed at Federal expense. He had taken funds from these collections and used them himself, and then personally paid it back.

Mr. HORAN. Now in Soil Conservation Service, you got $183,500 by transfer. You completed 18 audits and no investigations.

Mr. CONDON. Yes, sir.

Mr. HORAN. In Agriculture Marketing Service, you——

Mr. CONDON. That is during the fiscal year 1963?

Mr. HORAN. I assume. You were transferred $2,128,900 and you have completed 958 audits and 271 investigations.

Mr. CONDON. Yes, sir.

Mr. HORAN. What were those audits and what were the nature of the investigations?

Perhaps Mr. Howell.

Mr. HOWELL. Investigations in AMS consisted of violations of the food stamp program; falsifications of certifications in connection with bulk inspections of grain; inspection of cotton, fruit, and other matters of that kind; diversion of commodities through the food distribution program, which is a program for giving commodities to the needy. Some investigations in connection with the school lunch and special milk program, although not the major item, and marketing orders, primarily fruit and vegetable marketing orders.

Mr. HORAN. And agreements?

Mr. HOWELL. And agreements; yes, sir. These are where the major investigations are in AMS.

Mr. HORAN. Foreign Agriculture Service—I believe you practically answered that already—eight audits, no investigations.

Mr. CONDON. 1963, correct.

Mr. HORAN. Now in the ASCS, you got $2,121,000 by transfers and from Commodity Credit Corporation you got $3,109,000 by transfer, a goodly portion of your total funding.

Mr. CONDON. Agriculture Stabilization Service and Commodity Credit Corporation, basically reflect about 70 percent of our activities in both audit and investigation.

Mr. HORAN. That would seem that way because you have completed 3,542 audits and have completed 862 investigations of 1963.

Mr. CONDON. Yes, sir.

Mr. HORAN. Which would bring us up to last July 1.

Mr. CONDON. Yes, sir.

Mr. HORAN. Now the Commodity Credit Corporation—Federal Crop Insurance, you got $111,000, you completed 14 audits, you have completed 6 investigations.

Rural Electrification Administration; how many——

Mr. CONDON. Twenty audits and nine investigations.

Mr. HORAN. What were the nature of those investigations?

Mr. CONDON. Most of them were, as I recall, circumventions of the contracutual relationships between the cooperatives that received loans and REA.

Mr. HORAN. Do you have any examples of that?

Mr. CONDON. I haven't, but we can furnish an example of one of those investigations if you would care, where it has been completed and closed out.

Mr. HORAN. Are they long or brief?

Mr. CONDON. Offhand some are very long and extensive, but this doesn't, on the face of it, indicate it was any more involved than, we will say, the short one.

Mr. HORAN. We would like to know what those are, because we have from time to time promulgated some regulations of our own for REA and if any of those are touched on by your findings, I think it would be of interest to this subcommittee. So I suggest, Mr. Chairman, that Mr. Condon's shop supply us with a group of those and we can——

Mr. CONDON. On the REA, something that reflects.

Mr. HOWELL. I would say, sir, most if not all are in connection with the violation of contractual relationships on the part of the cooperative who has received the loan. For example——

Mr. HORAN. We would be interested to know the nature of this violation.

(The information requested follows:)

INVESTIGATIONS, RURAL ELECTRIFICATION ADMINISTRATION

Investigations in the Rural Electrification Administration have been concerned primarily with alleged irregularities in the conduct of the borrower's systems. The objectives of these investigations relate both to loan security and to keeping the two lending programs clean. The allegations have involved both financial and management matters and have included misappropriation of borrowers' receipts, improper disbursements, material shortages and mismanagement; also violations of bylaws, kickbacks, conflict of interest, false reporting, and personal gain by borrowers' employees through use of their equipment, manpower, or other resources. The allegations frequently involve more than one of these items. The Office of General Counsel, U.S. Department of Agriculture, informs the Department of Justice in cases involving possible violations of the United States Code.

Two illustrations of cases investigated during fiscal year 1963 follow:

(1) Allegations of mismanagement and irregular transactions on the part of the telephone borrower's manager were made to REA. Investigation disclosed that the manager had used the system's equipment, materials, and labor to perform personal work, had included personal expenses in paying company expenses with company funds, and had otherwise used company funds to his advantage. The manager reimbursed the company for the claim of $5,913 and was separated. Information was furnished the U.S. attorney in consideration of prosecution under title 18 of the United States Code.

(2) REA field representatives reported apparent irregularities in use of and accounting for construction materials of an electric borrower. Investigation disclosed that the manager and other employees had performed off-hour work for outsiders and had used cooperative construction materials and equipment in the approximate amount of $9,300 without reimbursement. A claim was filed with the bonding company, the U.S. attorney was notified of the possible violations of the United States Code, and the employees were separated.

Mr. HORAN. From the Farmers Home Administration you received $765,000. You have completed 594 audits. What would those audits be?

Mr. CONDON. Most of those audits at that time were county audits.

Mr. HORAN. County offices?

Mr. CONDON. County offices for the most part.

Mr. HORAN. Completed 129 investigations. What would be the nature of those?

Mr. HOWELL. These would involve borrower cases which means, in effect, the disposal of the mortgaged property which the borrowers have given as security for their loans. It may mean some improprieties on the part of the county supervisors, such as approving loans beyond limitations governed by law.

Mr. HORAN. By county supervisors you mean——

Mr. HOWELL. Federal employees who serve as county supervisors.

Mr. HORAN. Usually Farmers Home Administration has a county committee on which the county supervisor leans very heavily at my insistence, definitely, because a Member of Congress, he does most of his work here, and he has to rely on the good judgment at the county level, and we have found the county committees have compiled a pretty good record of Farmers Home Administration in this regard.

I have been very well pleased with their integrity myself, so that would be county supervisor with the advice and consent of the county committee.

Mr. CONDON. Mr. Horan, with further response and reference to your question, regarding Farmers Home investigations, we had 36 involving fiscal, 14 misconduct, 55 where the borrower was in one way or the other involved, and 24 others, which totals 129.

Mr. HORAN. Then, lastly, general administration. You have made 20 audits and completed 9 investigations.

And the Forest Service, you have conducted 61 audits and no investigations in 1963?

Mr. CONDON. Yes. No investigations.

Mr. HORAN. Have you learned anything from the experience of the allocation of these funds, the amount of work that you have been asked to do, the amount of work that has been done, and how would you allocate your funds and your personnel for the future regarding these offices and agencies?

Obviously, not all of them require the same surveillance or audit, internal audit, as the others do.

Mr. CONDON. Mr. Horan, we adjust to the needs of the program that is related to the fiscal year. For example, I received approximately $100,000 from the Foreign Agricultural Service in my inheritance to survey this program, to use the phraseology that was expressed.

Mr. HORAN. $110,000?

Mr. CONDON. $110,000. Thank you, sir. I might say this year in travel alone, I will spend $60,000. So, from this particular area you can see it was far short of what the program itself would demand in terms of its audit and investigation activities.

ADVANTAGES OF CONSOLIDATION

Now fortunately enough, this is one of the great advantages of the consolidation of this particular organization, that we can draw upon a central fund and apply it to the specific needs of the agency at the time, without asking for additional funds.

Mr. HORAN. The whole purpose of my attempt to question here, Mr. Chairman, is to see if out of experience that we can put the salve where the hurt is and make a saving and develop perhaps techniques as experience teaches us what they might be that would point out in a hurry where the difficulties might be.

Mr. CONDON. Mr. Horan, I would hope——

Mr. HORAN. You are expected to have people in your office, under your employ, who are quite familiar with practically every nook and cranny of the Department and the way it breathes and how it moves and has its being and thereby are more able to more quickly detect something that is irregular. We don't know how sacrosanct these figures are that made your original budget.

Mr. CONDON. That made up the original budget?

Mr. HORAN. Yes, sir.

Mr. CONDON. I think I can say to you without any degree of error that we inherited a very conservative figure.

Mr. HORAN. What I am getting at, we don't know how sacred they were, how valid they were. Some of them may be, might even be low, but some of them may be pretty high, too. I am familiar with the auditing of the Foreign Service agencies.

I have seen our auditors abroad, and I know they do their job and I know that they are respected. At least the ones I have encountered were. So all I would hope to learn from you is what your learning from the activities of your first full year in office, in terms of your performance and in terms of the moneys that have been given you to spend in this activity, have been.

Mr. CONDON. Well, sir, actually, speaking for myself, with the fear of sounding self-serving in this particular area, our record that has been made available here today to the committee and the testimony we have given today has added up in summary to the fact that we have expanded our activities in greater depth and scope which we feel was most responsive.

Mr. HORAN. I am not being critical.

Mr. CONDON. In trying to answer your question, that we have expanded our scope which we feel was needed and, incidentally, needed because it was outlined by this committee and other committees of the Hill on the record.

We have not only expanded that scope, we have gone through a reorganization of the activity itself, we have provided a great deal more service, we think, to management as a whole. We now service all of the other 15 USDA agencies, which heretofore did not have audit and investigation facilities and we have done all of this in the dollars and cents we have inherited.

MANPOWER UTILIZATION

I think on the face of it, that it indicates to some extent that we have given, I think, a great deal of deference to effective utilization of manpower which, of course, is our greatest resource.

Mr. HORAN. We hope to learn from experience. I do see some inconsistencies in the amount of work that is done in various areas here by the 1963 record, which that doesn't reflect—does that reflect a full year of activity?

Mr. CONDON. No; 1963 reflects a full year, but the subsequent figures only bring us up to—I think—January or so, into fiscal year 1964.

Mr. HORAN. You mean the ones in your statement?

Mr. CONDON. Yes.

Mr. HORAN. Up to now.

Mr. CONDON. Yes.

These statistics, Mr. Horan, I might say, as you will agree, are only a reflection—some reflection—of the work that we are doing.

Now, as to statistics, I feel we are very conservative in statistics relative to the count of investigations. It is only some insight into a measurement of our work, one of the many measurements and I don't think it should be viewed in the aspect of whether or not we are doing the same number of cases or audits as of last year, because the depth, scope, the involvements, all of these have considerations in work measurement and contribution.

Mr. HORAN. You agree in some of these fields, you are more apt to run into discrepancies than in others.

Mr. CONDON. And our program of audit is designed to highlight those fields.

Mr. HORAN. That is what I am getting at.

Mr. CONDON. We are very sensitive to fields of commodity credit, and foreign activities, where you have less control than other areas.

Mr. HORAN. The matter of the Commodity Credit Corporation, that is a big field, too, where we have found and probably the reason for the creation of the Inspector General's Office grew out of experiences with the Commodity Credit, almost exclusively there, because we did find discrepancies that were due to failure to be properly organized to anticipate and to correct them or to detect them and to stop them before they become in some cases, quite full scale.

Well, I wish that you would enlarge upon what we have been discussing in any way you wish, because the more discussion we have about the selectivity of that which we have to ride herd on, the better we will understand what we are trying to do here.

That is all, Mr. Chairman.

Mr. WHITTEN. Mr. Condon, we wish to thank you and your associates again. I say for the record, that most of these investigations and inspections and audits, through the years, have been made by the Department.

Heretofore, they have been divided out and separated and not brought together under one head. As a result of the dispersion of these responsibilities and that method of handling, we thought it would be much better to bring it under one head. I think the presentation you have made here today demonstrates the value of bringing this all under one such supervisor, but I did want the record to show that this is not the first time we have been doing this investigation work. We have been doing it all along, but it has been widely dispersed and in some instances, it hasn't proved as effective as apparently it will under your supervision.

Thank you for a very fine presentation.

Mr. HORAN. We get a much better look at it this way.

Mr. CONDON. Thank you very much for your kind attention and, I might add, gracious remarks.

Thank you very much.

THURSDAY, MARCH 12, 1964.

OFFICE OF INFORMATION

WITNESSES

JOSEPH M. ROBERTSON, ADMINISTRATIVE ASSISTANT SECRETARY
HAROLD R. LEWIS, DIRECTOR, OFFICE OF INFORMATION
GORDON WEBB, DEPUTY DIRECTOR, OFFICE OF INFORMATION
JAMES H. McCORMICK, ASSISTANT DIRECTOR, OFFICE OF INFORMATION
FRANCIS A. SHEA, EXECUTIVE ASSISTANT TO DIRECTOR, OFFICE OF INFORMATION
GALEN YATES, SECTION HEAD, BUDGET BRANCH, DIVISION OF BUDGET AND FINANCE, OFFICE OF MANAGEMENT SERVICES
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Gentlemen of the committee, we come now to the Office of Information. We have with us the Director, Mr. Harold R. Lewis, and also the administrative assistant secretary, Mr. Robertson. In line with our practices, Mr. Lewis, we will have pages 37 through 53 of the justification, volume III, included in the record at this point.

(The material requested follows:)

OFFICE OF INFORMATION

PURPOSE STATEMENT

The Office of Information was established under its present name in 1925 as a consolidation of functions formally organized as early as 1889, to coordinate, in the Department, the dissemination of information useful to agriculture as directed by the act establishing the Department of Agriculture in 1862.

The Office has general direction and supervision of all publications and other information policies and activities of the Department including the final review, illustrating, printing, and distribution of publications; clearance and release of press, radio, television, and magazine materials; maintenance of central files of news and general illustration-type photographs; and the preparation and distribution of exhibits and motion pictures. The Office publishes the Yearbook of Agriculture, the annual report of the Secretary of Agriculture, the Department Directory, and the Department List of Publications; handles the details of distributing farmers' bulletins allotted to Members of Congress; and services letter and telephone requests for general information received in the Department. Under the Department's working capital fund, the Office also produces visual information materials, such as motion pictures, exhibits, art and graphics materials, and still photographic work for the Department and other Government agencies.

Available funds and man-years, 1963 and estimated, 1964 and 1965

Item	Actual, 1963		Estimated, available 1664		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Office of Information: Salaries and expenses	$1,614,307	113	$1,634,000	119	$1,648,000	119
Obligations under other U.S. Department of Agriculture appropriations:						
Centennial observance of Agriculture (1962 appropriation available until Dec. 31, 1962)	(30,934)	1				
Great Plains conservation program, Soil Conservation Service—for information services	13,400	1	16,000	1	16,000	1
Working capital fund for production of visual information material [1]	1,586,000	113	1,565,000	118	1,585,000	118
Total, other U.S. Department of Agriculture appropriations	1,599,400	115	1,581,000	119	1,601,000	119
Total, agricultural appropriation bill	3,213,707	228	3,215,000	238	3,249,000	238
Other funds:						
Assistance to Area Redevelopment Administration program, (Department of Commerce)	30,776	2	29,000	2	29,000	2
Agency for International Development (foreign training)	29,515	3	30,000	3	30,000	3
Accelerated public works			3,000			
Miscellaneous reimbursements	53,008	1	12,000		12,000	
Total, other funds	113,299	6	74,000	5	71,000	5
Total, Office of Information	3,327,006	234	3,289,000	243	3,320,000	243

[1] Reimbursements to the working capital fund include funds from other Department of Agriculture agencies, other Government agencies, land-grant colleges and other institutions, and the general public. The breakdown by man-years and source of funds is not readily identifiable, but it is estimated that about 70 percent relates to funds included in the Agricultural Appropriation Act.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	768	860	873
	Positions other than permanent	11	6	6
	Other personnel compensation	18	15	15
	Total personnel compensation	797	881	894
12	Personnel benefits	58	64	65
21	Travel and transportation of persons	8	10	10
22	Transportation of things	3	3	3
23	Rent, communications, and utilities	92	98	98
24	Printing and reproduction	556	539	539
25	Other services	8	12	12
	Services of other agencies	49	8	8
26	Supplies and materials	15	14	14
31	Equipment	27	5	5
	Total obligations	1,613	1,634	1,648

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	128	128	128
Full-time equivalent of other positions	2	2	2
Average number of all employees	113	119	119
Employees in permanent positions, end of year	112	114	114
Employees in other positions, end of year	5	5	5
Average GS grade	7.7	7.7	7.7
Average GS Salary	$7,176	$7,531	$7,602

Salaries and expenses

Appropriation act, 1964	$1,684,000
Activities transferred in the 1965 estimates to "Salaries and expenses, Office of Management Services"	−50,000
Base for 1965	1,634,000
Budget estimate, 1965	1,648,000
Increase (for increased pay act costs (Public Law 87–793))	+14,000

Project statement

Project	1963	1964 (estimated)	Increases		1965 (estimated)
			Increased pay costs (Public Law 87–793)	Other	
1. Publications review and distribution	$732,549	$725,000	+$5,000	----------	$730,000
2. Review and distribution of current agricultural information	607,979	617,000	+5,000	----------	622,000
3. Review, preparation, and distribution of visual agricultural information	272,210	292,000	+4,000	----------	296,000
Unobligated balance	1,569	----------	----------	----------	----------
Total increased pay act costs (Public Law 87–793)	(----------)	(19,000)	(+20,000)	(----------)	(39,000)
Total available or estimate	1,614,307	1,634,000	14,000	----------	1,648,000

Supplementary project statement

[The following schedule reflects a more detailed analysis of the obligations shown in the regular project statement]

	1963 (actual)	1964 (estimated)	1965 (estimated)
1. Publications review and distribution:			
(a) Publications management	$61,680	$63,500	$64,500
(b) Printing procurement	62,774	65,000	66,000
(c) Inquiries and distribution	307,538	308,000	311,000
(d) Printing of farmers' bulletins, reprints, and lists	280,414	267,500	267,500
(e) Publications use study	20,143	21,000	21,000
Total	732,549	725,000	730,000
2. Review and distribution of current agricultural information:			
(a) Press service	178,761	181,500	183,000
(b) Preparation of reports	76,222	79,500	81,000
(c) Radio and television	129,996	133,000	135,000
(d) Printing Agriculture Yearbook	223,000	223,000	223,000
Total	607,979	617,000	622,000
3. Review, preparation, and distribution of visual agricultural information:			
(a) Art and graphics	20,182	23,000	24,000
(b) Exhibits service	62,431	67,000	68,000
(c) Motion picture service	108,151	113,000	114,000
(d) Photographic distribution	81,446	89,000	90,000
Total	272,210	292,000	296,000
Unobligated balance	1,569	----------	----------
Total available or estimate	1,614,307	1,634,000	1,648,000

Status of Program

The Office of Information functions as the communications link between the Department of Agriculture and farmers, organizations, and institutions interested in agriculture, consumers, and the public at large. The Office provides a service to the Department and its constituent agencies—and to the ultimate users of agricultural information—by disseminating results of agricultural research and marketing, of trends in agricultural programs and policies, and of other equally pertinent subjects that are essential to carrying on the work of the Department. The Office of Information coordinates all information work in the Department; reviews for final clearance all information materials released to the public; and coordinates agricultural information activities with those of other Federal and State agencies.

Current Activities

The work of the Office in disseminating useful agricultural information is carried on in the following major areas:

1. *Publications.*—Management of the Department's publications program (printed or otherwise processed), including policy review and clearance, printing, and distribution to farmers and to the public.

2. *Current information.*—Review and issuance of press, radio, television, and special reports materials in the dissemination of timely agricultural and consumer information; compilation and publication of the Agriculture Yearbook; and providing essential information on the Department's policies and programs to USDA employees in Washington and the field.

3. *Visual information.*—Production, issuance, and coordination of use of exhibits, still photographs, art and graphics, and motion pictures in disseminating useful agricultural and consumer information.

The Office also cooperates with nongovernmental, industrial, and other commercial organizations and sources on information matters relating to the work of the Department.

Selected Examples of Recent Progress

Publications

The Office of Information made notable contributions to the Department's publications program during fiscal year 1963 by maintaining, through revisions and other improvements, the high quality of Department publications; meeting the increased rush printing needs on the crop adjustment programs of the Department, and managing a total printing program of unusual proportions for maximum efficiency and economy; and distributing a record number of publications, and setting up and handling special arrangements to meet the demands for publications for consumers.

1. *Printing and publications clearance and production.*—Total printing orders written and placed in fiscal year 1963 jumped by nearly 400; i.e., from 4,062 in fiscal year 1962 to 4,459 in fiscal year 1963. Revisions sent to the printer also increased—from 70 to 86. On the other hand, the number of administrative or nonpublication materials reviewed for processing dropped from 287 to 75 due in part to more of the items being handled under the additional special printing contracts and thus included in the 4,459 printing orders written. Total manuscripts reviewed remained at a peak level of 1,178, off slightly, from 1,198 in fiscal year 1962.

	Fiscal year 1962	Fiscal year 1963
Manuscripts received for printed publications (new and major revisions, not including periodicals)	666	643
Issues of major periodicals reviewed	167	196
Publications manuscripts reviewed for processing	365	339
Other materials reviewed for processing	287	75
New publications to the printer	583	533
Revisions to the printer	70	86
Reprints to the printer, including slight revisions	516	469
Total printing orders written and placed	4,062	4,459
Total manuscripts reviewed	1,198	1,178

2. *Number of publications printed and distributed.*—A comparison of fiscal years 1962 and 1963 (see below) shows an increase in the total number of copies of new publications printed from 22.5 to 41.7 million, and in the total number of copies of all publications distributed from 43.4 to 56.7 million. Most of this

increase was accounted for by copies of low-cost program aids, issued to give farmers and the public generally information essential to the proper implementation of official programs of the Department.

[In millions]

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964 estimated	Fiscal year 1965 estimated
Total publications printed and distributed:				
Total stocks of all publications at start of year	11.7	12.8	16.7	14.0
New publications printed	22.5	41.7	27.0	27.0
Reprints printed	22.0	18.9	20.0	20.0
Total available for distribution	56.2	73.4	63.7	61.0
Stocks at end of year	12.8	16.7	14.0	12.0
Total distribution	43.4	56.7	49.7	49.0
Farmers' bulletins printed and distributed:				
Total stocks of all bulletins at start of year	6.0	6.2	8.1	7.7
New publications printed	2.6	1.5	1.9	2.5
Reprints printed	13.0	11.6	11.0	10.5
Total available for distribution	21.6	19.3	21.0	20.7
Stocks at end of year	6.2	8.1	7.7	9.2
Total distribution	15.4	11.2	13.3	11.5

3. *Printing accomplishments.*—Special printing needs of the new farm programs were given priority attention. These required special handling and in many instances ran into large quantities. Both the feed grain and wheat programs fell into this category. A number of items were printed in the Chicago GPO plant and distributed from there as a more central point for speedier delivery. The Office of Information worked closely with the Foreign Agricultural Service to make special arrangements in planning and printing the new weekly periodical called Foreign Agriculture, which is a combination of two former publications.

In continuing its improved services to the agencies, this Office, working with the Government Printing Office, arranged two additional contracts with commercial printers for delivery of finished publications within 24 to 72 hours. This makes four such contracts available to the Department for rush publications meeting certain specifications. The Office also arranged through GPO to work directly with "contract" printers beginning July 1, 1963, to get rush manuscripts set in type within 24 to 72 hours for use in offset printing. This special arrangement will permit faster handling plus improved legibility and a more attractive appearance for some publications now using typewritten or similar characters for offset printing.

4. *The central mailing list.*—Shown below are the mailing list workload items handled in carrying out the responsibilities of maintaining the central mailing list index and of supervising the mailing list activities of the Department. The total for fiscal year 1963 shows over 100,000 major workload items. In practice these involved more than 400,000 separate work actions, including filing operations, which were necessary for proper functioning of mailing list operations in the handling of this workload.

	Fiscal year 1963	Fiscal year 1964 estimated	Fiscal year 1965 [1] estimated
Mailing lists:			
Names included on index on June 30	466,844	471,000	600,000
Mailing lists in index	1,298	1,250	1,400
Mailing lists revised	144	150	200
Workload items:			
Additions to lists	48,951	45,000	169,000
Names or addresses changed	33,229	30,000	50,000
Names or addresses dropped	29,600	40,844	40,000
Total	111,780	115,844	259,000

[1] Mailing lists for all mailings from the Department are in the process to conversion of ADP. When this is completed the index for Department lists will be on magnetic tape in the Washington Data Processing Center. Pending the conversion, the figure given for 1965 is a rough estimate only.

5. *Use of postcards.*—Postcard requests for USDA publications can be handled much more rapidly than letter mail. Editors who announce any USDA bulletins are asked to include a suggestion that orders be sent in on postcards. One widely read business periodical, for instance, has adopted this practice. The use of postcards is expected to increase, and will speed up the handling of publication requests.

CURRENT INFORMATION

1. Press service

Press media demand for all types of USDA information materials and assistance provided by the press service continued to rise during fiscal year 1963, reflecting broadened activities of the Department—especially in the rural areas development, consumer, export, and pesticide fields. With more queries from reporters and editors to handle, and more requests for specific releases and publications, the basic press service workload increased substantially.

Stress put on national interest press releases.—As a reult of putting more emphasis on press releases of the broadest general interest, reflecting national rather than localized impact of Department programs, the number of press releases and reports issued during fiscal year 1963 was reduced to 4,271. This was a drop of 367 from the fiscal 1962 total, and was the first reduction in press releases and reports achieved since the 1959 fiscal year. The reduction was accomplished by stressing the need for combining releases where possible, and giving limited distribution to releases of only local or specialized interest. An increasing number of limited interest releases was given regional or specialized trade distribution, rather than national distribution. These releases continued to receive editorial handling in the press service to maintain professional information standards. Successful combining of routine recurring releases was carried out, primarily of Public Law 480 purchase authorizations. This winnowing of releases enabled correspondents in Washington to concentrate on the more significant USDA developments. Heavier distribution was given to important releases on such subjects as rural areas development, export problems, and pesticides. As a result of this shift in emphasis, telephone requests for releases and reports ran as high as 120 per day.

Consumer information stepped up.—Distribution of consumer information to women's editors of large metropolitan newspapers was increased considerably during fiscal year 1963. Thirty-one newspapers across the country was added at their request to the mailing list of Food and Home Notes. Nineteen of these papers have circulations in excess of 100,000 each. More than 700 letters were written in answer to requests for information from editors, educators, nutritionists, home management specialists, and consumers. Editors of 11 women's magazines and 2 nationwide Sunday supplements were contacted about consumer information available from USDA. Consequently, many of these editors are now requesting information in the consumer field, particularly about food, housing, and gardening.

Farm editor interest in USDA activities continues upward.—Editors of farm magazines, newspaper farm editors, and writers for farm organization and trade publications continued to show strong interest in the regular activities of USDA. Based on a count of mail received during a typical month, more than 1,000 requests for information material were received from general farm magazines during fiscal year 1963, over 200 from newspaper farm editors, 335 from farm organization publications, and about 775 from trade organization representatives.

2. Radio and television activities

(*a*) *Radio tape services.*—The most noteworthy feature of progress in radio service in fiscal year 1963 was the sharp increase in radio stations which could be served with regular tape recordings due to installation of a high-speed tape duplicating machine as authorized by fiscal year 1963 appropriation. Stations served with the weekly series most in demand—Agri-Tape—had been necessarily leveled off at 200 because of duplicating limitations. Tapes now have increased to 286 copies, and are heard on an estimated 350 to 400 stations.

The other regular weekly tape issue, "Agriculture U.S.A.," has increased from 135 to 188 copies per week. Requests for taped materials from the tape "library" have increased from 409 in fiscal year 1962 to 603 in fiscal year 1963. Special tape mailings, and regional interest features also have become more economical to accomplish with the new equipment, and most issues of Agri-Tape carry regional interest features supplemental to the regular material for national use.

(*b*) *Radio network services.*—The Office continues to produce the weekly "American Farmer" program on the ABC radio network and to provide ma-

terial for the weekly NBC "Farm Review." The daily mutual "Farm World" on MBS radio draws heavily upon USDA for material.

(*c*) *Television farm package service.*—These are now provided to a list of TV program producers which varies from 250 to 300, maintaining a slight average increase.

(*d*) *Video tape services.*—Although the Department does not have access to video taping equipment on a continuing basis, short video taped features are now being produced at the rate of about 1 per week and are made available to a regular list of television stations approximating 100, a hundred percent increase over fiscal year 1962, on a "bicycling" arrangement. There are indications that another 35 to 50 stations would use daily video tape services if the Office had facilities to provide them.

A half hour video tape on television programs has now been produced weekly for 2 full years in cooperation with a Washington, D.C., television station. Aimed at a general audience, it is designed to outline important and interesting work the Department is doing as it relates to both the farm and nonfarm public. After two telecasts locally, the program is used by stations in seven other large metropolitan centers. It is video taped in color and telecast in color by several of the eight stations.

(*e*) *Radio-TV consumer features.*—The TV home feature packet for consumer interest television programs is maintained at a mailing list averaging about 275.

Also, approximately 40 television stations ask for and receive consumer-oriented video tapes, kinescopes, and films as they are released—for use in nonfarm programing.

3. Special reports services

There was increased demand for special materials on a broad range of subjects. Material was prepared to service requests for information on programs newly authorized by the Food and Agriculture Act of 1962; on rural areas development, conservation, and recreation, the importance of agriculture to the national economy; consumer services and protection; civil defense in rural America; and on safe use of pesticides. A reference book on U.S. agriculture was completed for writers, broadcasters, speakers, and others who frequently request this type of information. Information in these areas serves farmers by helping to create a better understanding of agriculture by nonfarm people.

(*a*) *Food and Agriculture Act of 1962 described.*—A nine-page descriptive summary of the four sections of the Food and Agriculture Act of 1962 was prepared to meet requests by the press and the public for information on new farm program provisions stemming from the law.

(*b*) *Rural area development.*—New provisions of the Food and Agriculture Act and other programs aiding rural areas development were explained to farmers, rural nonfarm people, and the general public, through publications, press releases, radio, television, special statements, and articles. These new programs include rural recreation loans to farmers; loans to organizations for development of water systems to convert land to recreation, grazing, or forest; small watershed assistance to develop public water recreation and municipal-industrial water supply; aid to convert land in surplus crops to recreation, grass, forest, and wildlife; resource conservation and development projects, areawide efforts for economic development and resource development programs in larger areas and in places where rural poverty is severe.

(*c*) *Great Plains conservation program—Interest continues.*—A short motion picture showing how farmers in Baca County, Colo., use the Great Plains conservation program to protect the land against drought was produced. Entitled "Weatherproofing Baca County," it was distributed to all television stations in the Great Plains area, and made available to others nationwide. This Office works closely with the Great Plains Agricultural Council and USDA agencies concerned with drought and other problems peculiar to the Great Plains.

(*d*) *Agriculture's importance to the economy.*—There was a continued heavy demand for Office of Information publications about the importance of agriculture to the Nation's economy and to individual consumers. Almost 200,000 copies of the leaflet "Background on Our Nation's Agriculture" were sent out. There was continued interest in material on the cost, quality, marketing, and distribution of U.S. food. Some 56,000 copies of "The Food We Eat" were distributed in response to requests. Both publications were revised and sent to the printer for delivery in August 1963.

"The Fact Book of U.S. Agriculture," a 170-page reference on all aspects of agriculture, was completed, revised to include new figures, and then reprinted

to meet requests. Some 8,000 copies were sent out in response to requests from business, industry, trade associations, educators, and the public. The Government Printing Office printed 10,000 copies for sale at $1 a copy.

(*e*) *Civil defense.*—Under newly defined defense responsibilities for the Department of Agriculture, much new material was prepared on rural defense and Department aid to natural disaster victims. A leaflet describing various types of USDA assistance in a natural disaster, "When Natural Disaster Strikes," was completed and later reprinted. About 50,000 copies have been distributed.

(*f*) *Pesticides.*—The first phase of an information effort to promote the safe use of pesticides was set in motion in the final months of fiscal 1963. This Office coordinated information work by USDA agencies, and took part in planning the pesticide information program which includes publications, television and radio spot announcements, posters, newspaper features, and other materials. A substantial portion of this initial phase was completed after the close of fiscal 1963.

4. Yearbook of agriculture

Work was completed on the 1963 yearbook, "A Place To Live," and was published in October. A volume of 584 pages, it surveys the influence of industrialization and urbanization on many aspects of Amreican life, primarily farming, and considers at length the several programs for rural development, outdoor recreation, conservation, and others.

A start has been made on the 1964 yearbook, which will deal with America's stake in world agriculture. It will be a comprehensive study of foreign agricultural problems, trade, food needs, marketing, and other facilities, and conditions that bear on our export, assistance, food, and similar programs.

5. Examples of recent publications

(*a*) *Rural Areas Development—Revitalizing America Today.*—A primary information tool.

(*b*) *Rural Areas Development Handbook.*—Explains the roles of many agencies in RAD.

(*c*) *Rural Recreation—A New Family Farm Business.*—Discusses recreation opportunities in rural areas for the landowner seeking to increase income and for the nonfarmer seeking outdoor recreation.

(*d*) *What People Can Do About Rural Civil Defense.*—Provides notes for speakers and writers.

(*e*) *Food Management in a National Emergency.*—Seeks to help food processors and wholesalers.

(*f*) *Fallout and Your Farm Food.*—Directed to farm families.

(*g*) *4-H in the Nuclear Age—Your Tomorrow.*—For youth.

(*h*) *Survival Self-Helps.*—Explains in simple terms what to do in event of nuclear attack. This novel wallet-size publication folds accordion style to fit a pocketbook and was printed for Department employees.

(*i*) *Safe Use of Pesticides in the Home, in the Garden.*—A folder for wide distribution; warns against careless use of pesticides.

(*j*) *Homemakers and Home Gardeners—Use Pesticides Safely.*—Stresses need for careful use of pesticides.

(*k*) Use of Pesticides Safely—A poster printed in black and red reiterates the message.

(*l*) *Packet for the Bride.*—The Packet for the Bride continued to be popular. A total of 129,154 packets was distributed during the fiscal year. With 10 bulletins in each packet, this mounts up to 1,291,540 individual bulletins distributed by this means. A new design for the packet will provide the facts from "Food for fitness—A Daily Food Guide" on the inside fold of the packet, and a fill-in arrangement on the back for making up a variety of menus.

VISUAL INFORMATION ACTIVITIES

1. *Art and graphics services*

The Office of Information provides a central service for planning, preparing, and producing all art and graphics visuals for the Department and its agencies. This Office has developed visual material to meet demand from consumer-oriented outlets, serviced such programs as rural areas development, insecticides, defense activities, and foreign trade development. Also, through design the Department's research and action programs have been visualized to more effectively communicate this information to the farmer and general public. In addition to developing visual aids for USDA publications and programs, particular emphasis was

given to designing and preparing visuals for the Amsterdam exhibition, such as the following:

(*a*) "Open the Door," a brochure directed to the food industry to encourage participation in the fair.

(*b*) A flip chart presentation on the program of events. Intended for administrative use in programing the fair.

(*c*) Two "Kit Covers" for "Food Industry Information" and "Fair Invitations."

2. *Exhibits production up*

The production of new exhibits had a decided increase in fiscal year 1963:

	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
New exhibits produced	38	29	45	[1] 73
Exhibits renovated	184	174	184	179
3-dimensional visual aids produced	45	41	6	41
Exhibits showings	257	225	239	255
Blank exhibit structures for field use			45	27

[1] In addition, 63 duplicate exhibits were built to fill demand.

Major exhibit activities included the following:

(*a*) The multisection land and people exhibit was initially shown at five regional land and people conferences, and since then at rural areas development and similar meetings.

(*b*) *Pure food U.S.A.*—This extensive, consumer-oriented, walk-through exhibit stresses the quality, value to consumers, of the wide range of American foods. It includes models, transparencies, large photos, specially designed art. The exhibit had a successful first showing at the Fifth International Food Congress in New York, and has since been seen at a trade show in Cologne, Germany.

(*c*) *Forest Service visitor centers.*—Complete design service, from plans for buildings to interior displays and decor, was performed for visitor centers for people using the national forests. Already under construction are centers for Sabino Canyon, Tucson, and for the Superior National Forest in Minnesota.

(*d*) *Exhibits manual.*—For the Agricultural Stabilization and Conservation Service, a 36-page illustrated manual was produced to instruct county offices how to plan, design, build, and show their own exhibits. This will be useful to other agencies of the Department, to extension agents, and to answer inquiries for information of exhibits display.

(*e*) *Department's own expositions.*—Aimed primarily at consumers were the careers and marketing expositions in the main USDA building, each running a month. The careers exhibit was timed for high school youth visits to Washington. The marketing exhibit coincided with the World Food Congress and the 50th anniversary of the Marketing Service of the Department.

(*f*) *New York World's Fair.*—A detailed story outline was prepared for the agricultural part of the U.S. Government exhibition in the Federal Pavilion of the fair.

(*g*) *In progress at end of fiscal year 1963.*—USDA exhibit at Century of Negro Progress at Chicago's McCormick Place; design and construction of five new exhibits for showing at national veterinarians meeting in New York; preparation of complete new catalog of USDA exhibits; providing leadership in establishing content for USDA exhibition in special area of the fall of 1963 Exhibition-Symposium in Amsterdam, Holland.

3. *Motion picture activities*

A summary of motion picture work indicates that: In distribution, circulation of Department films to television stations and to live audiences maintained the high level of the previous year; the number of new releases were up; 13 Department films won recognition; in new productions, the figures show a distinct rise over previous reports; in laboratory work, there was a significant change in the nature of both color and black and white printing.

(*a*) *Distribution activity*

	1961	1962	1963
Total film subjects in circulation	386	428	450
Estimated prints in circulation	52,000	60,000	62,000
Regular (live) showings through libraries and agency field offices	98,295	100,205	[1] 102,000
Regular (live) showings through Washington, D.C., office	10,635	[2] 12,744	9,518
Television showings through libraries and field offices	572	475	662
Television showings resulting from Washington, D.C., bookings	3,135	5,352	5,286

[1] Estimate; reports from field offices incomplete.
[2] Includes 2,400 showings at State fairs.

Almost half of the Washington distribution during fiscal year 1963, other than television, was in connection with the centennial series films, as evidenced by the 4,148 audience showings of these pictures compared with the 9,518 total of all USDA films.

Thirty-nine television stations, scattered throughout the country and in large and small urban areas, broadcast Department films every week during the year. Ten of these ordered 45 to 60 minutes of film each week; 24 stations, 30 minutes of film, and 5 stations, 15-minute programs weekly. Twenty other stations ordered from 15 to 30 minutes of USDA films for showing about twice monthly, on an average.

After steadily increasing for several years, requests received in Washington from television stations for films seem to have stabilized at about 100 per week.

(*b*) *USDA films win recognition and awards.*—The following 13 Department films were cited for excellence or selected for showings in many internationally known U.S. and foreign film festivals:

"Agriculture, U.S.A."—Award at Columbus, Ohio, film festival.

"Agriculture's Showcase Abroad."—Award at American Film Festival, New York.

"Alice in Numberland and Chemicals and Compact Plans."—Award at American Association of Agricultural College Editors annual convention.

"Our Land—Its Many Faces."—Two awards at Columbus, Ohio, film festival, and at Society of Agricultural Engineers convention.

"Potential Unlimited."—Award at National Visual Presentations Association, New York, film festival.

"Traceback."—Merited by American Film Festival, New York.

"We Share This Land."—"Chris" certificate awards at Columbus, Ohio, film festival, at American Film Festival, New York, and at American Association of Agricultural College Editors annual convention.

"Wilderness Encampment."—Award at Columbus, Ohio, film festival and at American Film Festival, New York.

In addition, the films "Agriculture, U.S.A.," "Agriculture's Showcase Abroad," "The Forest," "Roundup," "Voice of the Forest," and "Wilderness Encampment" were selected for showing at the Seattle World's Fair.

(*c*) *Increase in films released.*—There was a decided upswing in the number of film titles produced and released in fiscal year 1963 as compared with fiscal years 1961 and 1962. The number of titles, for films 15 minutes and longer almost doubled; and the number of TV shorts, 2 minutes to 7 minutes in length, has doubled. For TV spots, the 1963 figures show a small decrease.

	1961	1962	1963
Productions:			
30 to 60 minutes	0	1	0
15 to 30 minutes	2	7	18
7 to 15 minutes	4	9	13
TV shorts:			
2 to 7 minutes	13	12	25
10 seconds to 2 minutes	42	27	25

NOTE.—The breakdown shown above is reported in more detail than in previous budgets because the total workload in relation to film lengths has changed. Films longer than 30 minutes are seldom produced; the major portion of the workload is in the 7- to 30-minute categories.

The level of film work for fiscal year 1964 is expected to be slightly higher when compared with the workload of fiscal year 1963. Thirty-five films are in production as against 33 produced during fiscal year 1963, but the current load includes an increased number of longer and complex film jobs.

Important among the forthcoming list of films are: "Civil Defense in the Food Industry," the 40 points food processors need to know for the protection of the Nation's food supply; "Something to Crow About," the story of inspected American chicken, the protein bargain; and "The Farmer," how the Farmers Home Administration helps a farm family help themselves.

(*d*) *Laboratory processing.*—A significant change took place in the character of both color and black and white printing for the Department. Of the 3,695,000 total feet of color printing, 100,000 feet were made from color internegatives, a new color print process now in operation by the laboratory and reported here for the first time. This new process produces release prints at a lower cost. Of the 2 million total feet of black and white printing, 16,000 copies of TV spots were made for mailing to television stations. Although this is a decrease of 4,000 copies of TV spots from the previous year, an increasing number was made from videotapes and kine transfers. There was a notable increase in the number of 3- to 5-minute TV spots and fewer 1-minute, 10-second, and 20-second spots.

4. Still photographic services

The Office of Information has two responsibilities for furnishing photographic reproductions. The photographic library, with some 100,000 black and white photographs and 4,000 color transparencies, furnishes to news outlets and the general public, still photographic reproductions obtained in connection with authorized work of the Department, either on sales or free basis. The photographic laboratory performs photographic work for agencies of the Department and other Federal and State agencies on reimbursement.

More than 10,000 requests were received in the division for USDA photographs from news outlets and the public during fiscal year 1963. A total of 4,723 requisitions were received from agencies of the Department and several other Federal agencies for photographic reproduction work during fiscal year 1963.

(*a*) *Picture stories and photo series.*—Production of picture stories increased during fiscal year 1963 with more attention given to programs connected with rural areas development. Eleven picture stories were produced compared with nine the year before. Four photo series were produced compared with eight the previous fiscal year. Two picture stories were produced on rural areas development work in Johnson County, Tenn.

(*b*) *Updated photo library.*—Approximately 5,000 outdated photographs were retired from the current file and many of them placed in the historical file, which is a record of development of American agriculture and USDA over several decades. About 3,000 new pictures were added to the current file to further update it.

(*c*) *"Then and Now in Agriculture" series.*—A weekly series called "Then and Now in Agriculture" was released and used in connection with United Press International Newspictures, a commercial photo service to the press. It consisted of one photograph taken up to a hundred years ago and one contemporary photograph showing how a job related to agriculture was carried out then and now. A brief story accompanied the photographs to explain the difference between the two and to give the significance of the development. The commercial photo service in turn duplicated and mailed the pictures and stories to more than a hundred of their clients around the world.

(*d*) *Filmstrip and slide series.*—Eleven new filmstrips and 17 new slide sets were released. Typical subjects were "Hog Cholera Eradication," and "Screw-Worm Eradication" in connection with the animal disease eradication program; "Agricultural Outlook Charts" for explaining trends in agricultural economics; "Quality Assurance for Quantity Buyers of Poultry and Eggs" to explain USDA marketing aids for institutional buying; and "Conservation and You," a conservation education piece for classroom use.

Photography and reproduction services performed for the agencies of the Department were as follows: 11,800 negatives made during 1963, slight decrease from fiscal year 1962; 120,000 photographic prints, an increase of 20,000; and 290,000 duplicate slides, a decrease of 25,000. The division produced 13,000 photoprints of cotton standards, an increase of 1,000 over the fiscal year 1962.

General Statement

Mr. Whitten. We will be glad to have your general statement, Mr. Lewis.

Mr. Lewis. Thank you very much. Mr. Chairman, and members of the committee, we are glad to be here again to discuss with you briefly some of the information activities we have carried on in the past year. We have no increase in our estimate for information programs. We do have an increase of $14,000 to provide for additional costs in fiscal year 1965 of the second step of the pay increase pursuant to Public Law 87–793.

As we have pointed out to the committee before, the work of this office is geared to the whole activity in the Department. And we have tried to keep geared to this effectively this last year. This includes the preparation and dissemination of information on all activities such as research, the regulatory and service functions, the whole area of our conservation activities, credit, food stamp, and other distribution programs.

This keeps us pretty busy, but we have tried to keep our staff flexible so that we can adjust to situations as they come along.

And also, as we have pointed out before, we are trying to stress some developments above the regular information service job that we have been doing for so long. The technological changes in agriculture, and its status in our national economy, require a larger and more effective interpretation to the general public of how agriculture's achievements in production have benefited the whole economy and the whole population. And also how the general public can benefit from the many Department services that the Congress has provided over the years.

We feel that by getting more information to the 92 percent of the people who don't live on farms about what the impact of technology has been on farmers, on their problems and their needs, as well as their achievements, that we are doing a better job of serving our farmers who, of course, remain our first order of business.

The fact that one farmer now produces enough for 29, including himself, and is doing it under a situation that gets food to the general public for only about 19 percent of their take-home pay, represents a challenge to information that requires some sound approaches for explaining such facts more effectively to the whole public.

I would like to discuss this in more detail later. Getting to our regular program work, we have gone ahead in the basic publications field at a fairly high level during 1963. Distribution was up fairly substantially. We account for this, in part, by the need for short popular publications that provide program explanation, and special material.

YEARBOOK OF AGRICULTURE

In the yearbook field, the 1963 book came out last fall. This deals broadly with problems in rural America that have developed from industrialization and urbanization. While it is a fairly specialized book, as to subject matter, it has had a pretty good reception. The first 4 months of sales by the Government Printing Office, for example, stacked up pretty well with sales of some of the past books.

The 1964 book is now in the process of preparation. A good deal of the copy has gone to the GPO. This is a book which is being devoted to a broad survey of this country's stake in world agriculture, exports, international relationships in trade and trade problems—a very large array of subjects that we think will be of value to agriculture, farmers themselves, business people, and others who are interested in the foreign field.

The 1965 book is now in the planning stage. We are shaping it up to be a practical handbook covering many useful subjects and developments that have come out of research of the service programs, and other activities. The book will be keyed quite closely to subjects useful to the homeowner, and the family; and we hope this will be the story of what the land-grant institutions and the Department have developed that can be useful to American families.

Mr. HORAN. Mr. Chairman, could I ask a question at that point?

Mr. WHITTEN. Certainly.

Mr. HORAN. Will there be a chapter on what constitutes an economic unit?

Mr. LEWIS. I am not sure, sir, that I undesrtand—oh, farm size? We plan to have something about the farm—the general farm situation. But essentially this will be a book aimed at better living. Now the economic level is something we will take under consideration, of course.

Mr. HORAN. That is what the economic unit is aimed at. I suggest you have a talk with Dr. Nathan Koffsky or Dr. Sherman Johnson or Dr. Heisig. One of the three of them ought to write a chapter in this book.

Mr. LEWIS. Thank you, sir. I don't have the committee list here, but they may have people on the yearbook committee.

Mr. HORAN. I imagine they have. Definitely on next year's anyhow.

Mr. LEWIS. Thank you, sir.

RADIO AND TELEVISION

We have continued to try to reach both more urban and rural people in the broadcast media. We have been very satisfied with the development that has come out of high-speed radio tape duplicating equipment we were able to get a little over a year ago. Radio has become more effective for dissemination of information—certainly to rural areas—and through it we can go into urban areas more than was the case a few years back. We have two weekly recorded services that we put out. One is in segments and treats a number of subjects; the other goes into fewer subjects but in more depth. On March 1, a year ago, we had 355 outlets getting these two services. Last March 1, we had 500 outlets getting the services, or an increase of around 40 percent. Now we are doing this with the same manpower as before. We are getting more subjects out, and we are reaching many more people because even many small stations will reach from 10,000 to 15,000 people. Having this equipment has made it possible for us to get out more local and regional subjects, too. For example, only yesterday we put out a tape to 19 stations, in Ohio, Indiana, and Kentucky on food being made available to people displaced in flooded areas. Our announcement pointed out that food was being offered in

Illinois, also. This is the kind of thing that we can do with this equipment and get out in a hurry.

We can use this, of course, for many types of regional or local announcements—such as economic background on commodities, tobacco, cotton, fruit, wheat, and so on.

We have been experimenting with videotape as we could over the last couple of years, and we are developing a videotape library that now includes about 50 subjects. They cover research topics, program announcements, marketing, service work, and so on. We are now "bicycling" the tapes around to a hundred stations weekly. Since last July 1, we have been able to make over 2,100 tape mailings to stations. This is a very adaptable technique and while we don't have our own equipment, through an arrangement such as we have with a local station, we have been able to develop this to its present level. This is something we are going to continue to work on, because with such a facility we can get material out fast where it is needed.

PRESS ACTIVITIES

In the press field, our load has continued to be heavy. In fiscal 1963, we tried very consciously to cut this down, both from the standpoint of reducing the number of issuances and improving the quality of our output. As you know, the Department has many programs and services on which we are obligated to report. We did cut this down—about 8 or 9 percent, I would say. I report it merely because this is a direction we want to go, from the standpoint of making the best use of manpower.

In the area of attempting to reach more of our urban people with information about what is going on in agriculture—and I refer to this as the industry—and also to explain some of the developments that are coming out of research, such as stretch cottons, new foods, nutrition developments, inspection and grading services, and other activities. We took steps this year to report to new audiences that we were not reaching before.

Getting to urban people has been more difficult than reaching rural people, but I think we have started to break the ice. We initiated a monthly newsletter last November to pull together information that would be of interest to the general public, particularly the urban public, and tried an experiment to see how we could work this out.

The letter covers all subjects of Department work in which we feel the general public would be interested. The first issue was mailed to about 3,500 leaders of women's organizations, editors of house organs of business and industrial organizations, labor groups, business service groups, and many others. These people were selected from the standpoint of having outlets to people who, for example, either work for them or who belong to their organizations.

We have had requests from 2,000 of these people to receive the letter regularly. I think this is a pretty good indication that there is urban demand for the kind of information that can come from the Department. We hope, of course, that this effort will help create a better understanding of what is being done in agriculture.

Another development which you might be interested in is an arrangement under which Department information is now distributed through a national newspaper. That service [indicating] is a service that gets material to about 4,000 newspapers in the country. We have

information that we felt that the service would be interested in using, and they agreed to do so. They prepare the mats and send them out. We have just got tear sheets back on our first participation. The display you see is based on Department information, including inspection and grading work, and some information on foods that are plentiful at this time. These layouts are prepared to drop into ads or for use in other preparations by the newspapers. As I indicated, this service is national. We supply the ideas and suggested copy and rough artwork. So far we think this is going to cost not more than $1,200 a year to the Department. We estimate conservatively that if we had the mats made and distributed, the cost would be from $15,000 to $17,000. So we feel this is a pretty good outlet to get this kind of information to the person who is buying food and other farm commodities.

SAFE USE OF PESTICIDES

Last year, we had considerable activity in the information field to stress the safe use of pesticides. As the committee can understand, this is somewhat of a public relations or information problem. We had been doing some work in this area, but when the President's Science Advisory Committee issued its report, one of the recommendations was for agencies to step up educational and information work in this field. So, working with the Extension Service and the Research Service, we developed an information program that stepped our effort up fairly sharply during the growing season last year. Under a slogan, "Use pesticides safely, read the label," we prepared certain materials that were given fairly wide distribution on the basis of demand, and our own efforts. We had to rely on information items that we could get out quickly and get distributed widely. This leaflet I am showing was one of the basic pieces. It explains the importance of reading and following instructions on the label, storing pesticides safely, applying them safely, and so on.

We had a very heavy demand for these. I think we have distributed something like 950,000 copies through organizations, and by filling individual requests. This was a low-cost item that cost about seven-tenths of a cent per copy.

The Post Office Department was very cooperative and let us put the poster we produced in each post office [indicating]. It called attention to the "Safe use" slogan.

Last year we appealed pretty largely to the home gardener and the householder. Farmers had been getting a good deal of information in this area, and we felt, in view of the situation last year, we needed to get useful information to people who might use these materials somewhat casually, and on the basis of our results we think this was effective.

To get to these people quickly, we used radio and television widely. We produced a series of radio and television spots. And based on some reports we have got back from the stations, I think we had fairly good results. I have here some letters from the stations. Not all of them do this, but this includes about 38 letters from stations who have reported the value of the time that they used in running these public service announcements.

The last one I have is dated March 6. This was from a New York station which reported that they had run the spots a certain number of times—the value of which was a little over $6,400 for this one

station. It would be interesting to see, what the value of the donated time would be if we could hear from all stations that used the spots.

This year, with more advance time available, we are working more through organizations, in addition to the channels that are open to the Department. Here is a leaflet or brochure put out by the National Safety Council which has done a good deal of work in this area. We have worked with them over the years, and they are cooperating with us by listing our basic materials, such as our leaflets, for people who are participating in the program this year.

The Advertising Council in New York has been very helpful. They are listing our "Use Pesticides Safely" effort in their May-June radio and television bulletin, which will be the peak period for use, we think, and we will be supplying them with basic information.

This again is something that doesn't cost us much in outlay, but it does get our information around very broadly.

DISTRIBUTION OF PUBLICATIONS

Mr. Chairman, these are highlights of some of the things we have done. Now I would like to call the committee's attention to a proposal for a change in language. As you know, the Department for many years has been supplying farmers bulletins under a formula that has been in the appropriations act requiring four-fifths of such bulletins be available to Members. We have had some concern ourselves about this for some time, not the formula or the practice, but concerning the fact that over the years it has been impractical to follow this language to the letter.

Some Members are from farm areas, some are from city areas, and we have a considerable variety of subject matter in our bulletins, so that distribution has not worked out exactly according to formula.

W have tried to keep about a year's supply of bulletins on hand, and I think it is fair to say that requests of Members have been taken care of satisfactorily. One of the reasons we bring this up is that the GAO has raised a question about the distribution practice this last year. We feel that it would be desirable to have this slight change in our language; it would not change the practice at all. It would not change the fact that quotas are set up for each Member, and that there would be flexibility in their use. But we do feel that at this stage, after our experience over the many years, that it would be desirable to change the language so that the practice and the language would coincide.

Mr. WHITTEN. Mr. Lewis, in that connection, I represent an agriculture district, a very small county district. I have recently had my district doubled in size and it now includes far more agriculture. The last time I sent out the list of farmers' bulletins available, I sent out about 30,000 and had about 900 requests returned.

Periodically through the year, I get three, four, or five requests a week. That is quite a sad commentary on the demand for these publications. And yet, I am most certain that since these same bulletins are made available through the Extension Service, various other agricultural people who desired them, were getting them.

I have an awareness that some of the men who have been in Congress as long as Mr. Horan and I have accumulated to their credit quite a large number of bulletins.

Periodically, I have been asked about releasing some of these. I don't know whether we have released them or not. I have been aware that you don't try to have all of these bulletins printed. Apparently, GAO thought you did. Actually you keep about a year's supply and we might have a much larger credit than that on the books. You can, however, supply them in case we have that need, as I understand it.

Mr. LEWIS. That is right.

Mr. WHITTEN. If any you do have are not used under the formula, do you make them available for use by the extension directors or the county agents or various others in Agriculture; isn't that correct?

Mr. LEWIS. That is right.

Mr. WHITTEN. Actually, there is little, if any, relationship between the supply that you have on hand and the number that might appear in the books to the credit of a particular Member of Congress.

Mr. LEWIS. This has been traditionally the case.

Mr. WHITTEN. I think this is a sound operation, but anybody who looks at the two, might not understand the difference in the two figures. The Congressman actually has credit for publications in case he has a use for them. As a practical matter they don't call for the publications and, therefore, you only carry enough for the expected demand. This change in language would authorize you to do what you had been doing anyway.

Mr. LEWIS. That is right. This has been brought up before the Appropriations Committees from time to time, and this, as you know, is the practice we follow.

PLANS FOR 1965

Mr. WHITTEN. I have listened with interest and I have also read the formal justifications which you submit.

By and large, you expect to go along in the coming year approximately as you have this year so far as manpower is concerned, and you are constantly on the lookout for new and better ways of disseminating information and getting this over to the public, as you have described here.

We can expect you to operate at about the same level and in the same way for the coming year. Is that approximately what you are asking?

Mr. LEWIS. Yes, sir. Our manpower situation will be the same as it has been. We have some pretty skillful people and they are fairly good at finding new ways of getting information out, such as the illustrations I have given here. And we are trying more and more to rely on outside organizations who are willing to take our information and put it into their output.

Within Agriculture, as far as media outlets are concerned, we are pretty well fixed; but we are constantly looking for ways to get more information to urban people. We feel this is quite necessary.

Mr. WHITTEN. Mr. Addabbo?

Mr. ADDABBO. No questions.

Mr. WHITTEN. Mr. Horan?

REVIEW AND DISTRIBUTION OF FARMER BULLETINS

Mr. HORAN. How about your farm bulletins lists? How often do you go over that to bring it up to date, or review it in terms of attempting to reflect the changing demands of the times?

Mr. LEWIS. This is done periodically. Mr. McCormick is familiar with this. Is this done more than once a year, or two?

Mr. MCCORMICK. Once a year as a formal matter. Now as the supply of a list may run out during the year and we have to print more lists, there will be some changes on that list. But, back of that, Mr. Horan, of course, every bulletin is looked at every year to make sure that it is up to date, that it has the latest information in it and material is not outdated.

Mr. HORAN. I have had very good demand for the yearbook and, to some extent, for the farm bulletins, but the last time I sent out a broadcast before we restricted ours, I didn't get too good a response. I don't know why that was.

Mr. LEWIS. We have been getting——

Mr. HORAN. I believe in getting these bulletins out, I don't think there is any point in spending $195 million for research and then not getting the findings distributed on as broad a basis as possible.

Mr. MCCORMICK. The northwestern region, Mr. Horan, the extension group of three States there, get together annually and their publication review group is doing a lot of pushing of State publications. Of course, they also use many Department publications.

Mr. HORAN. I know that. I have seen them on display at the courthouse and at the county agent's office that has a rack. They get pretty good distribution in that way.

Mr. LEWIS. In general, our people say our congressional requests have been stepping up fairly sharply, just recently.

Mr. HORAN. I believe in that, I am glad to hear that. As I say, I believe in getting this information out. I don't think the Department of Agriculture could live in a vacuum and be of very much service to the general public. I think individuals with enough get-up-and-go to search for their own findings would take care of themselves.

But by broadcasting this information, we serve a lot of people that don't ordinarily know that the information is available.

Mr. LEWIS. This is right, and this is an area where we are trying to broaden our means of getting this information to such people.

Mr. HORAN. That is all, thank you.

WORK FOR OTHER AGENCIES

Mr. WHITTEN. Mr. Lewis, there are two items I meant to ask you about.

We have asked this through the hearings. We note that your office has a good deal of work for other departments and agencies. Also you have imposed on the Department by the Bureau of the Budget, the executive department, a manpower ceiling. And as a result, we have tried to develop in the hearings what work is being done for other departments and agencies, as well as other agencies of the Department of Agriculture that takes manpower.

I notice that next year you have budgeted a $16,000 item for the Great Plains conservation program, and 1 man-year tied to that. Now what would that work consist of?

Mr. LEWIS. As you know, the Great Plains conservation program, like a number of our activities, apply to a number of agencies within the Department. When this program was initiated, we were asked to coordinate the information work with the agencies; that is, coordinate from the central office. This requires preparation of material, for example, that cuts across the board, and, of course, working with the agency people.

Now at the present moment, much of our work in this area is in producing films. And working from the central office, we are able to put these films together with the overall viewpoint.

Mr. WHITTEN. By asking these questions, we don't mean to condemn the action, because frequently it is better for some specialist in the field such as your agency, to do the work that you have described. But I do think the record needs to be made, because thereby, we will be in better shape to know what to recommend by this committee. I notice that $29,000 is set up for assistance to ARA program.

Apparently, that is a transfer from the Department of Commerce, and you have estimated 2 man-years assigned to that work. What does that consist of?

Mr. LEWIS. This follows the same general pattern, Mr. Chairman, as the Great Plains activity. The Department of Commerce delegated certain functions to the Department of Agriculture under the Area Redevelopment Act—that is, in rural areas. Now there are six or more agencies in the Department involved in this activity. Again, we work with them in the across-the-board manner to develop material that will go into leaflets and films, and some of our radio and television output, that would put focus on this work from a cross-agency basis or departmentwide basis.

Mr. WHITTEN. You have another item, $30.000 for which 3 man-years are set aside for work for the Agency for International Development. Briefly describe that.

Mr. LEWIS. This came about several years ago, when the—it would be the predecessor to AID—asked the Department to carry out training programs for information people from developing countries who wanted to come here and study our information methods.

Now the last year, for example, we had 93 of these people come through. This requires the development of training programs in information and supervision of programs while they are in the country to study our methods, for example, out at a land-grant institution or here in Washington. Sometimes they will require workshop sessions on how to use visuals and how to develop them.

Then when they have completed their tour of duty, they will come back in and our people will assess what they have done, and how it has come out from the standpoint of what has been accomplished.

Mr. WHITTEN. Thank you, Mr. Lewis. We think you and your associates, including the Assistant Secretary, Mr. Robertson, have made a very fine presentation.

Personally, we are very proud of the job you do of disseminating information for the Department. All of the research and much of the other work of the Department is for the purpose of getting in-

formation over to the public. You do a very fine job, and the job of getting the public to use it and to act on it, still remains as the $64 problem. But we keep working at it.

We wish to thank you for a fine presentation.

Mr. LEWIS. Thank you very much, sir.

Mr. WHITTEN. The committee is recessed until 1 o'clock Monday.

THURSDAY, MARCH 12, 1964.

OFFICE OF THE GENERAL COUNSEL

WITNESSES

JOHN C. BAGWELL, GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL
EDWARD M. SHULMAN, DEPUTY GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL
CHARLES W. BUCY, ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL
RALPH F. KOEBEL, ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL
W. EDWARD BAWCOMBE, EXECUTIVE ASSISTANT, OFFICE OF THE GENERAL COUNSEL
GALEN YATES, SECTION HEAD, BUDGET BRANCH, DIVISION OF BUDGET AND FINANCE, OFFICE OF MANAGEMENT SERVICES
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. The committee will come to order.

We have with us today the General Counsel of the Department of Agriculture. We do realize, Mr. Bagwell, that there are many contracts which are handled through your Office for the Department of Agriculture, between the Government and borrowers and those participating in farm programs as well as in sales and other things.

That doesn't mean we agree you need a new lawyer for each lawsuit or each problem. But we do have some comprehension of your volume of work. We also realize that proper attention to this can mean savings to the Government. Putting it another way, lack of attention could be very costly to the Government.

At this point I would like pages 16 through 36 of the justifications, volume 3, inserted in the record.

(The material requested follows:)

OFFICE OF THE GENERAL COUNSEL

PURPOSE STATEMENT

The Office of the General Counsel, prior to 1955 known as the Office of the Solicitor, was established in 1910 (5 U.S.C. 518) as the law office of the Department of Agriculture.

The General Counsel, as chief law officer of the Department, is responsible for providing legal services for all programs, operations, and activities of

the Department. He is assisted by a Deputy General Counsel and three Assistant General Counsels, each of whom is responsible for a portion of the legal work of the Department.

The field offices handle legal work relating to the activities in the field of the Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, Farmers Home Administration, Federal Crop Insurance Corporation, Forest Service, and Soil Conservation Service, and the agricultural stabilization and conservation committees. By special assignment of the General Counsel, Deputy General Counsel, or by an Assistant General Counsel, legal work relating to other programs and activities of the Department may be handled by a field office.

Legal advice.—The Office of the General Counsel issues both formal and informal opinions on legal questions arising in the administration of the Department's programs; prepares or reviews administrative rules and regulations applicable to the public; drafts proposed legislation; prepares or interprets contracts, mortgages, leases, deeds, and similar documents; prosecutes patent applications arising out of inventions by Department employees; examines title to lands to be acquired by the Department or accepted as security for loans; and considers and determines claims by and against the United States arising out of the Department's activities.

Administrative proceedings.—In administrative proceedings for the promulgation of rules having the force and effect of law and in quasi-judicial hearings held in connection with the administration of various programs, the Department is presented by the General Counsel.

Civil litigation.—Civil litigation arising out of the Department's work is handled by the Department of Justice, with the Office of the General Counsel assisting in the preparation and trial of such cases, except that the General Counsel represents the Secretary in administrative proceedings involving freight rates on farm commodities and in appeals from the decisions of the Commission to the courts and, by special assignment, the Assistant General Counsel for Litigation represents the Department in certain classes of cases before the U.S. courts of appeals.

Criminal litigation.—Cases having criminal aspects are reviewed for the purpose of referring them to the Department of Justice.

Available funds and man-years 1963 and estimated, 1964 and 1965

Item	Actual, 1963		Estimated available, 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Office of the General Counsel: Salaries and expenses	$3,588,126	350	$3,698,500	349	$3,853,000	349
Obligations under other USDA appropriations:						
Expenses, Agricultural Stabilization and Conservation Service, for legal services in connection with the conservation reserve program	60,151	5	74,000	7	75,000	7
Emergency credit revolving fund, Farmers Home Administration, for legal services in connection with the emergency credit loan programs	11,705	1	20,000	2	22,000	2
Miscellaneous reimbursements	2,927					
Total, other USDA appropriations	74,783	6	94,000	9	97,000	9
Total, Office of the General Counsel	3,662,909	356	3,792,500	358	3,950,000	358

NOTE.—This table does not reflect an estimated $9,000 to be paid directly by the Forest Service in 1964 or the purchase from commercial sources of title evidence required for land acquisition under the Weeks Act in excess of land acquisitions proposed in the Forest Service budget request for 1964. The additional Weeks Act purchases of $462,000 were authorized in the 1964 Department of Interior and Related Agencies Appropriation Act.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,993	3,145	3,313
	Positions other than permanent	22	21	12
	Other personnel compensation	4	30	18
	Total personnel compensation	3,019	3,196	3,343
12	Personnel benefits	222	237	248
21	Travel and transportation of persons	107	108	108
22	Transportation of things	2	3	3
23	Rent, communications, and utilities	55	46	44
24	Printing and reproduction	21	21	20
25	Other services	14	15	14
	Services of other agencies	4	4	4
26	Supplies and materials	31	30	30
31	Equipment	40	39	39
	Total obligations	3,515	3,699	3,853

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	365	365	365
Full-time equivalent of other positions	3	3	3
Average number of all employees	350	349	349
Employees in permanent positions, end of year	333	337	337
Employees in other positions, end of year	5	3	3
Average GS grade	9.2	9.1	9.1
Average GS salary	$8,780	$9,285	$9,463

Salaries and Expenses

Appropriation Act, 1964	$3,973,500
Transferred to "Operating expenses, Public Buildings Service, General Services Administration" for space rental	−7,000
Activities transferred in the 1965 estimates to "Salaries and expenses, Office of Management Services"	−268,000
Base for 1965	3,698,500
Budget estimate, 1965	3,853,000
Increase	+154,500

SUMMARY OF INCREASES, 1965

For increased pay act costs (Public Law 87-793)	85,500
For net increased costs of within-grade salary advancements	69,000
Total increase	+154,500

Project statement

Project	1963	1964 (estimated)	Increases		1965 (estimated)
			Increased pay costs (Public Law 87-793)	Other	
1. Commodity and production stabilization	$909,457	$916,000	+$21,000	+$18,000	$955,000
2. Marketing, regulatory laws, research, and operations	889,354	1,063,000	+21,000	+17,000	1,101,000
3. Rural development and conservation	1,716,426	1,719,500	+43,500	+34,000	1,797,000
Unobligated balance	72,889				
Total increased pay act costs (Public Law 87-793)		(87,700)	(+89,000)		(176,700)
Total available or estimate	3,588,126	3,698,500	+85,500	+69,000	3,853,000

STATUS OF PROGRAM

The Office of the General Counsel provides, through its Washington office and 20 field locations, the legal services required by the Department of Agriculture. These functions relate primarily to preparing legal opinions, assisting in drafting and reporting on proposed legislation, drafting Department and agency regulations, representing the Department in administrative proceedings, examining titles to lands to be acquired or accepted as loan security, and disposing of claims by and against the United States arising out of the Department's activities.

Attorneys of this Office frequently prepare complex cases for litigation and assist the U.S. attorneys in the trial procedures. In a number of appellate cases, the Assistant General Counsel for Litigation presents the oral argument.

Examples of recent activities illustrative of legal work performed during fiscal year 1963 are discussed below:

COMMODITY AND PRODUCTION STABILIZATION

1. *Proposed legislation.*—Legal assistance was given in drafting comprehensive farm legislation. Attorneys prepared material for use before congressional committees and assisted in explaining proposed legislation to such committees.

2. *Price support and surplus removal programs.*—Legal problems handled in acquiring, managing, and disposing of commodities under these programs involved practically every field of law—contract, tort, corporation, bailment, taxation, agency, real and personal property, negotiable instruments, bankruptcy, admiralty, and criminal. Price support program bulletins, announcements, instructions, regulations, notes, chattel mortgages, loan agreements, purchase agreements, and surety bonds were prepared or reviewed. Contracts between Commodity Credit Corporation and producers, dealers, processors, warehousemen, and private lending agencies were prepared or reviewed. Legal problems on applying these instruments and contracts and claims arising thereunder were handled. Work was performed in negotiating a blanket insurance contract protecting Commodity Credit Corporation against losses incurred by all warehousemen in performance of their obligation under grain storage agreements with Commodity Credit Corporation.

3. *Export programs and disposal operations.*—Legal problems and claims on the various disposal and export programs and the legal documents implementing them were reviewed and resolved. These programs involved barter; payment-in-kind programs, both domestic and export; cash subsidy export programs; sales for cash, foreign currency, and credit; and domestic and foreign donation programs. Regulations, announcements, contracts, agreements, and charter parties necessary in administering these programs were prepared or reviewed. This phase included contracts for procuring, processing, selling, transporting, warehousing, and financing of commodities.

4. *Storage operations.*—Various legal problems were resolved in leasing and managing bin sites used in the storage of Commodity Credit Corporation-owned grain. Legal assistance was given in preparing forms for the purchase of equip-

ment for use at bin sites. Revised regulations and legal documents were prepared or reviewed on loans to farmers for constructing storage facilities and acquiring mobile drying equipment for storage and preservation of grain held on farms under price-support loans. A number of problems arose requiring assistance because many States enacted the uniform commercial code. Legal advice was given on false certifications, labor warranties, and claims. Legal services were given on the uniform grain storage agreement and the cotton storage agreement used for the commercial storing of grain and cotton owned by or under loan to Commodity Credit Corporation, as well as on agreements used in storing other agricultural commodities. Legal problems arising from such storage operations and the maritime fleet storage operations were resolved.

5. *Emergency feed relief programs.*—Regulations, application forms, and other legal instruments were prepared under the emergency feed programs for drought, flood, and other disaster relief.

6. *Corporate management.*—Legal advice was given administrative officials of the Department and the Board of Directors, Commodity Credit Corporation, in connection with organizational, administrative, fiscal, budgetary, and procedural matters associated with general corporate activities of Commodity Credit Corporation. Regulations, procedures, and other legal instruments including dockets and resolutions for the consideration of the Board of Directors in adopting policies and programs of the Corporation were prepared or approved for legality. Reports required by Congress covering corporate activities were prepared or reviewed.

7. *Section 32, school lunch, special milk, and pilot food stamp program.*—Legal aspects of section 32, school lunch, and special milk programs were handled. Under the purchase and donation, export, and diversion programs carried out under section 32 of the act of August 24, 1935, regulations, procedures, contracts, and other legal instruments were prepared or approved. Dockets authorizing or amending the programs as well as claims were reviewed.

During fiscal year 1963, the food stamp program was expanded to include a number of new pilot projects in various parts of the country. Legislation providing for a continuing food stamp program of broader scope was prepared. Assistance was given in the administrative disqualification proceedings brought against retail stores charged with violating the program regulations. Various legal questions relating to the interpretation of the regulations and the operating agreements with the local agencies participating in the food stamp program were handled. During fiscal year 1963, a total of 37 cases involving the misuse or improper negotiation of food stamp coupons under the pilot food stamp program were referred to the Department of Justice as compared with 12 cases in 1962. Criminal prosecutions arising out of fraud in the presentations of food stamp claims were initiated. Fines totaling $6,500 were collected in four such cases. In one of these cases, the individual was also sentenced to 6 months imprisonment.

In connection with programs for procuring, storing, and distributing a variety of food products under section 6 of the National School Lunch Act, this office reviewed dockets authorizing the programs and drafted or approved for legality contracts, procedures, and regulations.

8. *Contracts Disputes Board.*—Legal assistance was given in 18 appeals handled by the Commodity Credit Corporation Contract Disputes Board. This involved preparing briefs and legal opinions, reviewing suggested findings of fact and conclusions of law, and representing contracting officers and the Government's interests at hearings before the Board. Legal assistance was given in revising the docket establishing the Board.

9. *Foreign agriculture.*—Legal assistance given in the foreign agriculture programs involved statutory construction, administrative law, contracts, sales, and litigation, as well as certain fields of international and admiralty law. The latter fields related to treaties and international agreements, such as the General Agreement on Tariffs and Trade.

(*a*) Public Law 480: Legal assistance was given in the sale of surplus agricultural commodities for foreign currency and on long-term credit under the authority of Public Law 480. Regulations, contracts, purchase authorizations, and related legal documents were prepared or reviewed for legal sufficiency. Formal opinions involving matters of statutory construction were written. Claims and litigation matters were handled.

(*b*) Foreign market development: Under the program to develop new and expanded markets for U.S. agricultural commodities, using foreign currencies

derived under title I of Public Law 480, many varied legal problems were handled. Project agreements and amendments were reviewed.

(*c*) Section 22 of Agricultural Adjustment Act (of 1933): Legal assistance was given on problems arising in connection with the imposition of import restrictions in the form of fees or quantitative limitations on agricultural commodities. The office represented the Department in hearings before the Tariff Commission, examining witnesses, preparing briefs, and presenting oral agreements, and assisted in conducting litigation.

10. *Acreage allotments and marketing quotas.*—Assistance was given in preparing and reviewing proclamations, regulations, and procedures; drafting proposed legislation and legislative reports; and handling review hearings and litigation. The office received 195 litigation cases involving marketing quotas during the year. Widespread irregularities in the transfer of cotton farm acreage allotments and in the allocation to farms of rice acreage allotments greatly increased the workload of the office in 1963. The attorneys of this office assisted the U.S. attorneys in litigation matters and handled review and administrative hearings.

11. *Federal crop insurance.*—Including red tart cherries, apples, and tomatoes in a crop insurance program made it necessary to prepare new insurance contract forms for each of these crops.

12. *Sugar Act.*—In addition to drafting legislation to extend and amend the Sugar Act of 1948, the office assisted the Department of Justice in preparing defense suits instituted in the Court of Claims to recover from the United States import fees totaling in excess of $20 million paid under the act.

13. *Commodity Credit Corporation litigation.*—A total of 314 Commodity Credit Corporation cases (including suits filed against the Corporation), were referred to the Department of Justice in 1963. The total dollar value of the new cases amounted to $14.5 million, almost $1 million more than in 1962. The total number of Commodity Credit Corporation cases pending in the courts or in the Department of Justice dropped slightly from 867 pending at the close of fiscal year 1962 to 848 pending at the end of fiscal year 1963. The pending cases involve slightly more than $23 million.

At the end of fiscal year 1963, a grand total of 362 producer-loan cases were pending in court or in the U.S. attorneys' offices compared with 428 such cases in this category at the end of 1962. Similarly, there was a reduction in the backlog of these cases pending in the Office of the General Counsel from 164 at the end of fiscal year 1962 to 121 at the end of fiscal year 1963. This reduction in the number of pending producer-loan cases reflects an overall decrease in the number of farm storage facility loan cases referred to the office by Commodity Credit Corporation. In fiscal year 1962, for example, 132 such cases were referred to the Office of the General Counsel for handling while 147 such cases were sent to the Department of Justice by the office. During fiscal year 1963, only 44 such cases were referred to the Office of the General Counsel and 42 cases were sent to the Department of Justice. Action by Commodity Credit Corporation to obtain compliance with program requirements has reduced the number of these cases referred for litigation.

Total collections in Commodity Credit Corporation litigation cases amounting to approximately $2.5 million were received and transmitted in fiscal year 1963.

The following are illustrative of Commodity Credit Corporation litigation cases:

(*a*) Grain warehouse cases: During 1963. 68 new cases involving shortage and deterioration of grain stored in commercial warehouses were prepared and referred to the Department of Justice. Thirty-three cases were closed leaving a total of 94 cases involving slightly more than $9 million pending at the close of fiscal year 1963. Eight new indictments were returned during the fiscal year in grain shortage cases making a total of 138 such indictments returned since 1951. There were 4 successful criminal prosecutions during the fiscal year bringing the total of convictions since 1951 in such cases to 99 individuals.

During the fiscal year 1963, Commodity Credit Corporation discovered grain shortages in five warehouses located in the State of Michigan which had been or were then operated by members of the Haddix family. On discovery of the shortages, the cases were referred to the Department of Justice and receivers were appointed by the Federal courts to conserve the assets of the firms involved, to effect orderly disposition of the grain remaining in the warehouses, and to liquidate the assets of the warehousemen. Claims aggregating about $900,000 have been asserted by the Government in these cases. An indict-

ment has been returned against Bud Haddix, Jack Haddix, Haddix & Sons, Inc., and Haddix & Sons Elevators, Inc.

In recent decisions the District Court for the Northern District of Iowa upheld the Government's contention that Iowa statutory bonds given by warehousemen to secure their performance of obligations imposed by the Iowa statutes governing public warehouses afford protection not only to private depositors, but also to Commodity Credit Corporation in the event of defalcations by the warehousemen. In so ruling, the district judge overturned a previous decision in the combined case of *United States* v. *West View Grain Co., et al.* and United *States* v. *D. E. Benton Company, et. al.*, 189 F. Supp. 482 in which the court had reached an opposite result. The recent rulings (*U.S.* v. *Hubert A. Tyler, et al.* and *United States* v. *Correctionville Mill and Elevator Co., et al.*), if not modified on appeal, can be urged as precedent in several other pending Iowa warehouse cases involving shortages and deteriorations in Commodity Credit Corporation-owned stocks.

(*b*) *Estes* and *McSpadden* cases: Legal work in connection with the *Estes* and *McSpadden* cases has occupied the attention of attorneys in both Washington and in the field. Of the two cases, the *Estes'* case has posed the largest number of legal problems. During the fiscal year, the grain storage facilities formerly operated by Estes and McSpadden were largely emptied and claims determined. The preparation and presentation of claims in bankruptcy were handled by the office in conjunction with the Department of Justice. During the year, most of the Estes assets were sold by the trustee in bankruptcy to the American Grain Corp. The details of this transaction were reviewed by the office and information relating thereto supplied to the Department of Justice. Marketing Quota Review Committee proceedings and other legal action relating to the transferred eminent domain cotton allotments involved in the *Estes'* case and those of other producers similarly situated required the attention of attorneys of the office in the presentation of the Department's case before the review committees and in assisting the Department of Justice in those cases where judicial review has been sought of the committees' rulings. A number of these proceedings are still pending.

(*c*) Transportation claims: A total of 107 cases against carriers were pending in the courts or in the Department of Justice at the close of fiscal year 1963, as compared to 62 cases at the beginning of the fiscal year. In the spring of 1963, eight shipping companies controlled by Manuel E. Kulukundis petitioned for reorganization under the Federal Bankruptcy Act. Action was taken immediately to perfect pending claims against the vessels owned or operated by these companies and 24 such cases were referred to the Department of Justice.

MARKETING, REGULATORY LAWS, RESEARCH, AND OPERATIONS

1. *Marketing agreements and orders.*—Amendment hearings were held concerning 63 existing orders. One hundred eleven suspension and termination actions were taken with respect to milk orders. Most of the suspension actions and much of the amendment hearing activity related to problems which arose during the year by reason of the adverse decision of the Supreme Court in *United States* v. *Lehigh Valley Cooperative Farmers et al.* (370 U.S. 76). It is expected that amendment and new program hearing activity will increase in 1964 due to the backlog of requests for such action which could not be handled in 1963 because of priority given to the consideration and formulation of appropriate order provisions to replace those brought into question by the *Lehigh* decision.

There has been a marked increase in the volume of litigation under marketing orders. In fiscal year 1963, 47 section 8c(15)(A) formal administrative proceedings were initiated by handlers, compared with 20 such proceedings in 1962 and only 9 in 1961. Fifty such proceedings remained open at the end of fiscal year 1963. Court litigation shows a similar trend. In fiscal year 1963, 87 court cases were begun as compared with 79 in 1962 and 66 in 1961. A backlog of 120 court cases remained on June 30, 1963, as against 107 and 88 at the end of 1962 and 1961 fiscal years. In light of the numerous new provisions required to be developed and incorporated in orders by reason of the Supreme Court's decision in the *Lehigh* case and the problems flowing from the increased number of orders in the area of intermarket impact, it is anticipated that the rate of increase in litigation, both administrative and judicial, will continue through and beyond fiscal year 1965.

2. *Perishable Agricultural Commodities Act.*—In 1963, 316 reparation cases were instituted. Action was taken which resulted in disposing of 333 cases, leaving 110 pending on June 30, 1963. Three disciplinary proceedings were pending at the beginning of fiscal year 1963. Fourteen new proceedings were instituted during the year. Ten disciplinary proceedings were disposed of during fiscal year 1963. In addition to orders disposing of cases, 33 additional orders were issued. These consisted of 12 stay orders, 15 orders in connection with petitions for reconsideration, and 6 miscellaneous orders. The volume of legal work under this act, of which the handling of reparation and disciplinary cases is only a part, continued at a high level. Based on the current trend of activity, it is expected the workload will continue to increase.

3. *Packers and Stockyards Act.*—The legal work under the Packers and Stockyards Act is at an all-time high level and is increasing at an unprecedented pace. This has resulted from a number of factors, including the broadening of the Department's jurisdiction in 1958 by Public Law 85–909, to include all livestock transactions in interstate commerce, and the added emphasis being given to enforcement activities under title II of the act with respect to packers and live poultry dealers and handlers.

There were approximately 2,250 stockyards regulated under the act as of July 1, 1963, compared with approximately 600 prior to the 1958 amendment. The number of registrants (market agencies and dealers) increased during the same period from approximately 7,000 to approximately 17,000. The number of packers subject to regulation under the act increased from approximately 2,100 to approximately 3,300 during the same period.

There were 248 formal administrative proceedings instituted during fiscal year 1963 (123 disciplinary, 103 reparation, and 22 rate proceedings), compared with 166 (106 disciplinary, 34 reparation, and 26 rate) instituted during fiscal year 1962, and 116 instituted during fiscal year 1961. During fiscal year 1963, 217 administrative proceedings were terminated. At the end of the year 108 such proceedings were pending, compared with 77 pending at the end of 1962 and 43 at the end of 1957. The total number of proceedings (248) instituted during fiscal year 1963 represented a 49-percent increase over the number (166) instituted during fiscal year 1962. The number of reparation proceedings (103) instituted during fiscal year 1963 represents a 200-percent increase over the number (34) instituted during the previous year.

The number of court proceedings to obtain civil penalties from persons violating the registration and reporting provisions of the act increased from 14 proceedings in fiscal year 1960 to 60 in fiscal year 1961, 77 in fiscal year 1962, and 92 in fiscal year 1963.

The increased emphasis on enforcement of title II of the act, prohibiting unfair, monopolistic, and restraint of trade practices by packers and live poultry dealers and handlers, has had a heavy impact on the legal workload. Many of these proceedings are bitterly contested from the time of the initiation of the investigation to their ultimate conclusion. In a number of cases, the Department's authority to issue subpenas required in connection with investigations and the scope of subpenas are contested in court. In addition, respondents contest the Secretary's jurisdiction over their operations and file motions of every conceivable type in the administrative proceedings. The cases are often of the complicated antitrust type, involving novel issues of fact and law, extensive research, protracted hearings, and lengthy briefs.

Considerable attention has been given to the issuance of statements of policy and a thorough revision of the comprehensive regulations and rules of practice under the act. These actions involved a considerable amount of legal work.

4. *Animal quarantine laws.*—Due to the initiation of new disease control programs and increased emphasis being given to enforcement activities, the volume of legal work under the animal quarantine laws has increased to a marked extent. The number of criminal cases under these laws increased from 196 in fiscal year 1962 to 342 in fiscal year 1963.

5. *Federal Insecticide, Fungicide, and Rodenticide Act.*—The number of civil libel proceedings to seize and remove from the market products which are not in compliance with this act increased from 9 in fiscal year 1956, to 25 in fiscal year 1960, 46 in fiscal year 1961, 55 in fiscal year 1962, and 90 in fiscal year 1963.

6. *Research and Operations Division.*—(*a*) Contracts: During the year approximately 500 documents consisting of research and service contracts, cooperative agreements, licenses and permits were handled, as well as contracts for special services and supplies. This was about a 20-percent increase over the fiscal year 1962. Assistance was given the Office of Plant and Operations in

preparing revised and new regulations relating to contract administration and to the Forest Service in revising its instructions to contracting officers on the proper use of change orders, contract supplements, and amendments. The Office participated in four contract appeal cases, with one attorney serving as chairman of the Board of Contract Appeals and another attorney representing the agency contracting officer whose decision was being appealed. Twenty-two mistake-in-bid cases were decided.

(*b*) Personnel: A number of questions were answered with respect to Public Law 87–849, and the President's memorandum of May 2, 1963, on preventing conflicts of interest on the part of advisers and consultants to the Government.

In the field of pay legislation the Salary Reform Act of 1962 (Public Law 87–793) and the overtime pay provisions of the Work Hours Act of 1962 (Public Law 87–581) gave rise to a number of problems on which advice was given. The enactment of the Public Works Acceleration Act (Public Law 87–658), occasioned a number of questions in connection with the use of unemployed and underemployed in carrying out various projects by agencies of the Department. The use of advisory committees prompted a number of questions raised by agencies of the Department. A number of problems were considered under Executive Order 10987 and the Department's regulations relating to employee-management relations.

(*c*) County Agricultural Stabilization and Conservation Administration: The special committee appointed by the Secretary of Agriculture to study the ASC committee system issued its report and numerous questions were answered concerning implementation, by statute, regulation, and procedure, of the recommendations in the report. This office assisted ASCS in preparing and revising procedure concerning county offices and county office personnel and considered numerous problems arising from the operation of the State and county committee system. Questions concerning the construction and application of various sections of the Secretary's regulations governing ASC county and community committees have been answered. Particular emphasis was given to sections concerned with the eligibility of candidates to run for election as county committeemen, to serve after being elected, and the removal procedure relating to county office employees. There was an increase in the number of administrative appeals of county committeemen and county office employees arising from their suspension and removal in connection with the administration of the various agricultural programs administered through the county committees.

In the field of litigation, a pending case in Montana, *Rasmussen* v. *United States*, has raised the issue of the authority of the State committee to remove a county office manager. In this case the Government obtained an injunction to restrain the county office manager from performing the duties of his office after he was removed by the State committee. This office worked closely with the Department of Justice, and prepared briefs and other documents for use by the Government in its presentation of the case to the court. In December 1962, at the request of this office, the U.S. attorney for South Dakota filed a replevin action in the U.S. district court against the Mound City Development Corp. to obtain possession of records of the Campbell ASC County Committee held in a building in Mound City, S. Dak. The Mound City Development Corp. subsequently turned the records over to this Department. They were removed to the Campbell ASCS county office at Herreid, S. Dak.

(*d*) Budget, fiscal, and departmental administration: Appropriation matters, which included assistance in preparing or reviewing language incorporated in the budget estimates and appropriation bill and interpreting appropriation items, increased by reason of operating under a continuing resolution. Questions under the resolution included interpreting "current rate," "project or activity," and apportionment and allotment of funds, particularly on restoration and reimbursement to Commodity Credit Corporation.

Assistance was given in connection with the Public Works Acceleration Act (Public Law 87–658) including review of all departmental authority affected thereby. The office handled problems relating to the market development program, such as a review of cooperators' compliance with laws of foreign countries, the 5 percent of foreign currency set aside under section 104(a) of Public Law 480, use of foreign currency purchased with dollar appropriations, and procedure, including certifying and disbursing, for operating foreign trade fairs.

Advice was furnished on the Department's authority in the fields of cooperation and interagency services. Other matters considered included changes in

the organization of the Department, revision of titles I and IX of the administrative regulations of the Department, use of the working capital fund of the Department, representation allowances, acceptance of donations, transfer of property under the Federal Property Act, improvement of privately owned lands, the Antideficiency Act, availability of information and records and responses to subpenas, and use by States of funds for matching purposes under section 204(b) of the Agricultural Marketing Act of 1946.

(*e*) Farmer cooperatives: Changes made in the tax treatment of farmer cooperatives and their patrons by the Revenue Act of 1962, approved in October 1962, increased the demands for information on the effects of these changes. The office helped author two bulletins (FCS General Report 105 and FCS Information 39) on the subject. A number of the staff participated in 19 State, regional, or national meetings of cooperative groups to explain the new law and regulations and the recent antitrust decisions involving cooperatives.

(*f*) Research and extension: The Cooperative Forestry Research Act, approved October 10, 1962, raised a number of legal problems such as the authority to make grants to land-grant colleges and agricultural experiment stations, what constitutes a "forestry school," and the eligibility of institutes to make nominations for membership on the National Advisory Board.

Assistance was given in drafting and reviewing regulations relating to animal and plant diseases control programs. Legal advice was given on several research projects, including the foreign research program.

Problems relating to activities of the Federal and State Extension Service, including the effect of the new amendments to the Smith-Lever Act, were resolved.

The United States District Court for the Northern District of Oklahoma in the case of *Lucille Thompson* v. *W. S. Whitenton and the United States* held that a county extension agent was not covered by Public Law 87–258 which authorized the Attorney General to defend suits against Government employees for motor vehicle torts caused in the scope of their employment. Considerable time was spent and arguments were made in an attempt to obtain the assistance of the Department of Justice in handling this case.

(*g*) Tort claims: This Office adjudicated 269 claims involving property damage and personal injuries under the Federal Tort Claims Act. Of these, 207 were allowed in the amount of $45,974.27, and 62, totaling $20,175.37, were disallowed. Forty-two cases, in various stages of development, were pending at the close of the fiscal year. Numerous cases of property damage were disposed of under the acts of January 1, 1931, and May 27, 1930. A number of claims resulting from damage to Government property against private persons were handled. Sixty-six suits involving claims against the United States and totaling over $3 million were pending at the end of the year. Seventeen suits were closed by judgment, compromise settlement, or by dismissal of the action.

(*h*) Patents: During the year, 170 new cases, including 4 trademark cases, were submitted and action was initiated on 179. Four hundred and fourteen cases were prosecuted through various stages in the Patent Office. Of this number, 145 new cases were filed. Eighty-nine cases terminated as patented and one trademark renewal was granted. Nineteen finally rejected cases were appealed to the Board of Appeals. Of the appeals previously filed, 15 terminated in favor of the Government; and 7 decisions were unfavorable. One interference was decided in favor of the Government. There were 146 referrals, not related to any specific patent case, received and answered.

RURAL DEVELOPMENT AND CONSERVATION

1. *Farmers Home Administration programs.*—(*a*) New legislation: During the year, exploratory legislative work seeking a feasible method of funding an extended and expanded rural housing loan program continued. Proposals developed included various methods of insuring private funds used for such purposes and providing a vehicle assuring reasonable acceptability and necessary liquidity of such paper in the investment market. In the field of State legislation, the accelerated rate of adoption of the Uniform Commercial Code called for technical legal advice concerning its terms and effect and required increased redrafting of security instruments to provide adequate liens for chattel loans. State legislative work included a 50-State survey of the availability of local public organizations for development of land conservation and utilization programs under section 32(c) of the Bankhead-Jones Farm Tenant Act, as amended in 1962, and drafting of pattern State legislation for the creation of suitable local cooperating agencies.

(*b*) Farm labor housing loans: This program, involving problems which have defied adequate solution for so many years, is taking shape particularly in the direction of loans, direct and insured, to nonprofit corporations. The corporate organization, character of structures and related facilities, and management proposals varied from case to case. Each case required individual treatment of complex legal problems.

(*c*) Senior citizens rental housing loans: Direct and insured loans for the development of rental housing for senior citizens are of two types: (1) Low interest rate loans to nonprofit organizations or consumer cooperatives for occupancy only by low and moderate income elderly, and (2) the competitive interest rate loan to any developer for occupancy by any senior citizen. The corporate and other legal problems for each type required tailormade documents of a wide variety.

(*d*) Shifts in land use including recreation: Credit for an almost unlimited number of possible shifts in land use by individual owners and by public and private groups recently authorized for several of the Farmers Home Administration loan programs opened up a large field of legal problems not hitherto encountered in these programs. Tax, insurance, licensing, health, and general liability questions have been anticipated and met.

(*e*) Loan servicing and litigation: An increase in number of new loans per year from 87,951 in fiscal year 1960 to 134,127 in fiscal year 1963, in addition to servicing and liquidating the accumulation of accounts established in prior years, has necessitated growth in volume of legal servicing of security, collection, and litigation matters. The increase in variety and complexity of types of loans and security accentuates the demand and increases the level of legal competency necessary. Older matters continue to involve complicated issues. For example, there is pending in the Court of Appeals of the District of Columbia a suit against the Secretary and the Administrator of Farmers Home Administration arising under the Rural Rehabilitation Corporation Trust Liquidation Act of 1950. The right of the Secretary to approve or disapprove administrative expenses by the corporation which do not exceed the 3-percent limitation mentioned in the statute is involved. The defense also embraces the liability of officers of the Government to suit for discretionary actions in their official capacity.

2. *Rural electrification and telephone programs.*—(*a*) Loans: The complex generation and transmission loans involved intricate interconnection and pooling of facilities arrangements between REA borrowers and other commercial and public power suppliers, as well as joint financing. These loans required more extensive and specialized handling, covering: (1) contractual arrangements for long-term fuel supply with mining and gas companies; (2) joint financing by REA and private bond houses; (3) long-term power supply arrangements with REA-financed cooperatives; (4) power pooling and joint operating arrangements with another REA generation and transmission borrower; (5) standby and interchange arrangements; (6) interchange and transmission wheeling arrangements; (7) modification of existing operating arrangements; and (8) power supply arrangements.

Provisions in generation and transmission loans involving complex arrangements on multi-million-dollar projects with private and public power suppliers were analyzed and drafted. The increased number and size of REA loans for electric machinery required increased study of State laws and completing special arrangements thereunder to safeguard the security interests of borrowers and the Government.

REA telephone loans in fiscal year 1963 involved (1) consolidating REA-financed telephone systems, (2) refinancing of borrowers' outstanding indebtedness, (3) nonduplicating of existing facilities, (4) financing of facilities in nonrural areas, and (5) furnishing adequate equity by telephone borrowers. Extensive legal assistance was furnished in the development of REA policies to preclude use of REA financing for speculative purposes. This involved extensive revisions of REA loan and security instrument provisions relating to equity and dividend controls.

(*b*) Acquisition and construction of facilities: Applications for REA financing of purchases of existing electric and telephone utility properties as a means of reaching the remote remaining persons without electric service in rural areas to extend and improve telephone service and to insure financial soundness of REA borrowers continued to present complex and difficult questions under the Rural Electrification Act. Proposals for exchanges of utility facilities and the transfer of facilities to other or new borrowers through assumption of debt presented special problems.

(*c*) Power supply: Activity increased in negotiating and drafting new power pooling, interconnection, and other power supply arrangements between REA borrowers and other private and public power suppliers. Closely related to this activity was the participation in the national power survey through membership on the Legal Advisory Committee which considered and made recommendations regarding legal impediments to pooling and integration of power facilities.

Litigation increased in connection with State public service commission certificates of convenience and other authorizations for such facilities as a result of increased REA emphasis on power supply. Extensive proceedings, including appellate reviews, have required increased assistance to REA borrowers. In one of these cases, involving a loan for a complex generating and transmission pooling arrangement, the REA Administrator was upheld against a contention of opponents of the loan that they were not supplied all appropriate information.

(*d*) Territorial protection assistance: Safeguarding REA borrowers' rights in their service areas continues to be a major program problem throughout the country and has required a considerable amount of legal assistance, both in borrowers' litigation and State legislative programs. Many cases of territorial disputes betwen REA borrowers and other electric suppliers, together with enacted and sponsored legislation relating to territorial protection, were collected and analyzed. In commission and court proceedings involving REA borrowers, active assistance was given both in briefing and hearing preparation. Major work was done in analyzing and drafting forms of territorial protection and regulatory body jurisdiction legislation affecting REA borrowers' territorial rights and the Government's security interests. In the light of the particular conditions and special State constitutional and statutory backgrounds in the various States, assistance was given to State borrowers' groups in modifying and adapting REA's so-called Model Territorial Integrity Act.

(*e*) Cooperative organization, functioning, and tax liability: Substantial assistance was given to REA borrowers in cooperative organization and functioning, particularly on margins and patronage capital and tax liability. Assistance was given in analyzing proposed and enacted tax legislation affecting borrowers and in effectuating changes in recommended REA policies.

(*f*) Legal opinions: Opinions were given on the permissible limits of proposed electric and telephone loans, on joint financing with non-REA sources and pooling and interconnection of facilities, and on the relationship of urban and rural telephone facilities. Legal opinions were given on the applicability of the 1962 amendments of the Rural Electrification Act to proposals for financing educational television facilities.

3. *Forestry and other land programs.*—(*a*) Administration of the national forests, national grasslands, and other lands under the jurisdiction of the Department of Agriculture: Legal services were rendered to the Forest Service and the Agricultural Research Service in connection with preparing and interpreting special use permits, grazing permits, and timber sales; interpreting private rights in minerals on lands administered by those agencies; preparing and reviewing proposed regulations of the Secretary of Agriculture; and reviewing Forest Service Manual material.

(*b*) Litigation: Advice was given with respect to the civil and criminal aspects of cases which arose out of a variety of actions and claims, including: unauthorized severance and taking of timber, minerals, and other resources of national forests and grasslands; unauthorized uses and occupancy of such lands; willful or negligent injury or threat of injury by fire or other means to such lands and resources; and breaches of contracts for the purchase of timber and other products and materials on such lands. When appropriate, such cases were referred to the Department of Justice with recommendations for action which, in some instances, involved the acceptance or rejection of proposed compromises. Cases were referred by field attorneys to U.S. attorneys under the direct reference procedure, and an additional 51 new cases were transmitted to the Department of Justice in Washington. Throughout the year field attorneys assisted in drafting pleadings and briefs in litigated cases, and in preparing such cases for trial.

A favorable decision was rendered by the U.S. Court of Appeals in *State Box Co.* v. *United States* (Cir. 9, 1963), involving a claim to timber based on the Central Pacific Railroad Co. grant under the act of July 1, 1862, as amended. Important for Forest Service timber management was the court's holding that the 1862 act did not grant a perpetual estate in the timber but only a right to remove the timber within a reasonable period.

(*c*) Land acquisition programs: The land acquisition programs workload, which includes acquisition of land for national forest purposes by purchase, condemnation, exchange and donation, and acquisition for research laboratories and administrative sites, increased during the past year. Included are sites acquired for use by the Agricultural Research Service.

Easements, including road access rights-of-way, were acquired in connection with the marketing of national forest timber. Some right-of-way easements, such as the Fisher River road system in Montana, the Northern Pacific Railway Co. road systems, and the Fruit Growers Supply Co. road system in California, involved preparing complicated conveyances and cooperative share-cost road construction and maintenance agreements covering large road systems with multiple control of lands. In several national forests it was necessary to acquire needed rights-of-way by condemnation.

(*d*) Mining claims and mineral rights: Continued assistance was given in proceedings for determining surface rights, validity and eligibility for patent of mining claims within national forests. Hearings for these purposes were handled by field attorneys. Legal advice was furnished with respect to minerals subject to location under the general mining laws; disposal of sand, gravel, etc., under authority conferred by law in 1955 (30 U.S.C. 601); uses of mining claims; and outstanding mineral rights and problems under the act of October 23, 1962 (30 U.S.C. 701–709), relating to conveyances to occupants of unpatented mining claims.

(*e*) Administrative appeals: An increased number of decisions by the Chief, Forest Service, in appeals under the Secretary's Regulation A–10 were reviewed for legal sufficiency. The appeals concerned purported grievances over timber sales, grazing privileges, land-use permits and proposed land exchanges. Chief's decisions were drafted in appeals involving issues of law. One such appeal of importance was that of Latimer & Sons, Inc., which involved the interpretation of the stumpage rate redetermination and estimated road cost amortization provisions of the timber sale contract. Briefs supporting the decisions of the Chief were prepared in appeals taken to the Secretary of Agriculture. Field attorneys continued to act as counsel for the regional foresters in public hearings in appeals to the Chief, Forest Service.

(*f*) Regulations: During the year a number of Secretary's regulations were amended or promulgated. The Secretary's regulations pertaining to the Administration of the Forest Development Transportation System issued June 10, 1963 (28 Fed. Reg. 6013; 36 C.F.R. 212.7–212.11), required much study, many meetings, and two public hearings. The regulations cover several fields of law, including traffic rules governing the road system, ingress and egress over national forest lands and roads, and acquisition and cost-sharing of roads. The amendment to the regulations governing rights-of-way for electric transmission lines over Forest Service lands issued March 23, 1963 (28 Fed. Reg. 2903; 36 C.F.R. 251.52), required study, legal advice, and coordination with the Department of the Interior in its comparable regulations. The amendment provided for wheeling rights in Interior and the withholding of right-of-way grants if not consistent with the Federal power marketing program. Other regulations of less controversial nature were prepared or reviewed, including regulation T–15 (28 Fed. Reg. 1769; 36 C.F.R. 261.16) which was of importance to the Forest Service because it permits the impoundment by forest officers of personal property on national forests or other land or waters under Forest Service control without specific authorization.

4. *Soil Conservation Service programs.*—(*a*) Soil conservation districts program: The legal work consisted of preparing and reviewing cooperative agreements, memorandums of understanding, easements, leases, deeds, permits, regulations, and program proposals. Assistance was given in modifying memorandums of understanding with soil and water conservation districts, which number over 2,900 to reflect the broadened conservation concept set out in the Secretary's memorandum of February 1, 1962, relating to cooperation with soil and water conservation districts.

The work also involved assistance in interpreting State laws relating to the conservation and development of soil and water resources, and in preparing new and amendatory legislation relating to State soil and water conservation districts laws and related laws, including analyzing and reviewing such legislation and consulting and attending meetings with personnel of the Soil Conservation Service and State and local officials pertaining to such legislation. This work required a substantial amount of legal help because a number of States need increased

assistance in broadening their soil and water conservation district laws to provide for the conservation, development, utilization, and disposal of water to permit them to take advantage of authorizations included in the 1962 amendments to Public Law 566, especially public recreational development authority. A current summary and a comparative analysis chart of State soil and water conservation districts laws was maintained.

(*b*) Watershed protection and flood prevention programs: The work in these programs involved drafting and interpreting legislation relating to Public Law 566 and other Federal laws pertaining to soil and water conservation and land and water development and utilization, and preparation of a legislative history of the 1962 amendments to Public Law 566. It included reviewing and approving watershed work plans for legal sufficiency, with particular attention to constitutional and statutory authority of local organizations. It also included preparing, reviewing, or approving deeds, easements, construction contracts, and related bid bonds and performance and payment bonds and preparing legal opinions interpreting construction contracts involved in litigation and analysis of pleadings and proceedings in such litigation. There was a substantial increase in the number of claims arising under construction contracts involving legal review of findings of fact and of court proceedings where contractors were dissatisfied with awards made by contracting officers. The work included assistance to State officials and agricultural leaders in developing new and amendatory State legislation to enable States and local agencies to obtain the benefits of the 1962 amendments to Public Law 566 providing for Federal cost-sharing assistance for public recreational and fish and wildlife developments. The work also included preparation and publication of the biennial summary of State laws entitled "Status of State Legislation Relating to the Watershed Protection and Flood Prevention Act, as Amended." The Public Works Acceleration Act resulted in increased requests for legal assistance in connection with the watershed protection and flood prevention programs and the Public Law 46 program.

(*c*) Great Plains conservation program: Assistance was given in preparing amendatory regulations with related instruments and Federal Register filing; preparing, interpreting and reviewing administrative regulations, notices, and instructions, including a revised and consolidated administrative handbook; and drafting and interpreting provisions of contracts and other legal instruments. There was an increase in this work as it pertained to the formulation and the administration of procedures for cases of sales or other dispositions of operating units and liability of producers for refund of cost-share payments.

(*d*) Resource conservation and development projects: This is a new phase of work which involved legal assistance in the formulation and initiation of the program for the development of projects for the conservation and utilization of land and water resources, as authorized by Congress in section 102, title I, of the Food and Agriculture Act of 1962.

General Statement

Mr. Whitten. We will be glad to have you proceed in your own way, Mr. Bagwell.

Mr. Bagwell. Thank you, Mr. Chairman.

I have with me on my far right, Ralph Koebel, Assistant General Counsel in charge of Rural Development and Conservation. Next to him is Charles Bucy, who has a new title since the reorganization I spoke about last year. He is Assistant General Counsel in charge of Marketing, Regulatory Laws, Research and Operations. Ed Bawcombe, on my immediate left, is executive assistant to the General Counsel. Ed Shulman is Deputy General Counsel in charge of stabilization programs in general.

Mr. Chairman, we are happy to come before your committee again to discuss our Office and our work and our need for funds to carry on our operations.

1965 BUDGET ESTIMATE

The 1965 budget recommends a direct appropriation of $3,853,000. This is $154,500 more than the $3,698,500 available for fiscal year 1964, but does not provide for any additional employment. The increase requested is to cover:

(1) The costs of the second step of the pay increases authorized by Public Law 87–793, which amount is $85,500; and

(2) The net costs of scheduled within-grade salary advancements which amount to $69,000. The total is $154,500.

In the past, we have absorbed the costs of within-grade advancements by reducing our planned employment and from the savings we were able to make through turnover. For the past several years, we have, in the face of increased workload, reduced the average employment to the extent that we now believe any further reduction in the staff would have an adverse effect upon the quality of our legal services.

Our rate of turnover has been declining during the past year or so, and it is doubtful if there will be sufficient savings of this nature in fiscal year 1965 to cover the costs of within-grade advancements which will be effective. Not only do we expect a smaller saving through turnover, but the costs of these within-grade salary advancements will be higher in 1965 than in previous years. The majority of these increases are in steps 4, 5, and 6 of attorney positions at grade GS–12 and above, which carry annual salary increases ranging from $330 to $550, and in the nonlegal positions at grade GS–5 and above. During the fiscal year 1965, many of the employees in these grades will complete the 2-year waiting period and receive their first within-grade salary advancement under the 1962 Pay Act.

The recent announcement of at least a holding operation, if not indeed a cutback in our personnel, has just about brought to a standstill the usual turnover of jobs. The personnel just don't move around when you have that situation. We just aren't having any of that right now to speak of.

ACTIVITIES STRUCTURE

The activities structure appearing in the 1965 budget estimate has been revised to reflect the reorganization of our Office which I discussed when we appeared before you last year.

We have some charts here, which you may have.

Mr. WHITTEN. I would like for this to be carried in the record. You might wish to present the information in another way, but I do think we should show how this Office is organized.

Mr. BAGWELL. We think we have a good setup. We have nine divisions, three under each one of the gentlemen here.

Mr. WHITTEN. Could we have this included. With each one of these divisions list the number of lawyers that are assigned directly to the work and those that might be in what you would term a "pool"—available in a general way.

Mr. BAGWELL. Yes, we will do that.
(The requested material follows:)

Statement of organization and attorney assignments

	Attorneys on rolls as of Mar. 11, 1964
Immediate Office of the General Counsel: Determines legal policy and supervises and directs the performance of all legal work of the Department	1
Deputy General Counsel—Commodity and Production Stabilization: Serves as full alternate to the General Counsel and directs legal work arising from the activities of the Commodity Credit Corporation, Agricultural Stabilization and Conservation Service, Foreign Agricultural Service, Federal Crop Insurance Corporation, and those activities of the Agricultural Marketing Service relating to (*a*) surplus removal, (*b*) export and diversion programs, (*c*) school lunch program, (*d*) special milk program, and (*e*) the National Wool Act	1
Commodity Stabilization Division; Provides legal services in connection with the Commodity Credit Corporation (except foreign currency and long-term credit sales), the Agricultural Stabilization and Conservation Service (except matters relating to soil bank, acreage allotments and farm marketing quotas, agriculture conservation payments, special feed grain and wheat diversion programs, and the sugar programs), and Agricultural Marketing Service activities relating to the school lunch program, the special milk program, and the National Wool Act	14
Production Stabilization Division: Provides legal services in connection with the activities of the Federal Crop Insurance Corporation, and the activities of the Agricultural Stabilization and Conservation Service relating to acreage allotments and farm marketing quotas, and the sugar programs	9
Foreign Agriculture and Special Programs Division: Provides legal services in connection with the activities of the Foreign Agricultural Services (including foreign currency and long-term sales financed by CCC); activities of the Agricultural Stabilization and Conservation Service relating to soil bank matters, agricultural conservation programs, and special feed grain and wheat diversion programs; and as special assignments, work relating to legislative proposals in connection with the programs for which the Deputy General Counsel is responsible	6
Assistant General Counsel—Litigation: Directs legal work pertaining to litigation in the appellate stage and such other litigation as the General Counsel may designate, and all matters of a general nature and relations with the Department of Justice concerning litigation	2
Assistant General Counsel—Marketing, Regulatory Laws, Research and Operations: Directs the legal work arising from the activities of the Agricultural Marketing Service relating to regulatory and marketing service programs and transportation of agricultural commodities, the Agricultural Research Service, the Commodity Exchange Authority, the Cooperative State Research Service, the Economic Research Service, Farmer Cooperative Service, Federal Extension Service, Statistical Reporting Service, and the administrative staff agencies of the Department. Provides liaison on matters relating to administrative procedures and coordinates civil defense and defense mobilization activities	1
Marketing Division: Provides legal advice and servicing incident to the Administration of assigned regulatory and marketing service programs including marketing agreements and orders, the administration of the Perishable Agricultural Commodities Act, and related activities	16
Regulatory Division: Provides legal advice and servicing incident to assigned regulatory and marketing service programs including the Packers and Stockyards Act, the Commodity Exchange Act, the transportation of agricultural commodities, plant and animal quarantining, and inspection of meat and poultry and related activities	17

Statement of organization and attorney assignments—Continued

	Attorneys on rolls as of Mar. 11, 1964
Immediate Office of the General Counsel—Continued	
Assistant General Counsel—Continued	
Research and Operations Division: Provides legal advice and servicing incident to the activities of the Cooperative State Research Service, Economic Research Service, Farmer Cooperative Service, Federal Extension Service, Statistical Reporting Service, the nonregulatory activities of the Agricultural Research Service, patents, and general departmental administrative matters	12
Assistant General Counsel—Rural Development and Conservation: Directs the legal work arising from the activities of the Farmers Home Administration, Forest Service, Rural Electrification Administration, Soil Conservation Service, and the Office of Rural Areas Development, and activities of the Department in land ownership and water resources	1
Farmers Home Division: Provides legal advice and servicing in connection with the activities of the Farmers Home Administration	8
Forestry and Soil Conservation Division: Provides legal advice and servicing in connection with the activities of the Forest Service and Soil Conservation Service matters relating to acquisition or disposal of lands or interests in lands, and general water resource matters	12
Rural Electrification Division: Provides legal advice and servicing in connection with the activities of the Rural Electrification Administration	19
Total, Washington	119

Field Service: Regional attorneys and attorneys in charge direct legal work in connection with activities of the Agricultural Stabilization and Conservation Service, Farmers Home Administration, Federal Crop Insurance Corporation, Forest Service, and Soil Conservation Service, carried on by the field services of these agencies. Matters related to other programs of the Department are handled as special assignments from the Deputy or the appropriate Assistant General Counsel. Field office locations follow:

Atlanta, Ga., regional office	5
Raleigh, N.C., branch office	2
Chicago, Ill., regional office	7
Milwaukee, Wis., branch office	3
Denver, Colo., regional office	7
Kansas City, Mo., regional office	5
Little Rock, Ark., regional office	6
Albuquerque, N. Mex., branch office	1
Stillwater, Okla., branch office	2
Portland, Oreg., regional office	6
Missoula, Mont., branch office	2
San Francisco, Calif., regional office	6
Honolulu, Hawaii, branch office	1
Los Angeles, Calif., branch office	2
Ogden, Utah, branch office	2
Temple, Tex., regional office	6
St. Paul, Minn., field office	3
Harrisburg, Pa., branch office	4
New York, N.Y., branch office	1
Santurce, P.R., branch office	1
Total, Field Service	72
Grand total	191

INCREASED WORKLOAD

Mr. BAGWELL. In the fiscal year which ended last June 30, 110,785 requests for legal assistance were referred to our office. This is 2,942 more than we received in fiscal year 1962. There are indications that the number of referrals in 1964 will be approximately the same as in 1963. Therefore, unless new programs are authorized or there is change in the emphasis of currently authorized programs which would increase substantially the volume of legal work, we believe we will be able to provide adequate legal services in 1965 with the same staff that we are able to finance from 1964 funds.

CURRENT ACTIVITIES

I would like to comment briefly on some of the matters to which attention is being given at this time.

COMMODITY AND PRODUCTION STABILIZATION PROGRAMS

First under commodity and production stabilization programs. Our budget estimates in this area of work were prepared in the light of operations under existing legislation. The new programs for wheat and cotton which would be carried out if the pending farm legislation is enacted into law will, of course, increase the work of this office. Moreover, if the new legislation is enacted providing for the expansion of the food stamp program, there will be an increase in the demands made upon this office for legal services.

We will, however, Mr. Chairman and gentlemen, even if we have additional work, do everything in our power to carry on with the personnel we now have. That is what we hope to do, but we can't foresee what might be down the road if, for example, the food stamp program should be made nationwide as compared with the pilot-type of operation we now have.

RURAL DEVELOPMENT AND CONSERVATION PROGRAMS

In the general area of rural development and conservation, we are currently engaged in studying legal authorizations and drafting or analyzing proposals for increased activity in land resources and the problems of people in rural areas. For example, the provisions of the Food and Agriculture Act of 1962 set up new authorities which we are studying and adapting in land use and watershed management.

In connection with the entire problem of land resources, we have, for the Forest Service, been extensively engaged particularly and with increased emphasis in problems on road development, timber sales management, and rights of appeal. In our soil and water conservation and flood prevention activities, we have been increasingly concerned with questions of Federal-State cooperation, especially in regard to needed State legislation, problems arising out of new Federal authority for multiple development and use of water resources, and matters relating to the administration of contracts and the disposition of claims thereunder.

FOREST SERVICE APPEAL REGULATIONS

I might comment at this point on this matter of rights of appeal, which relates to people who use the national forests. I have spent a lot of time in the last 3 or 4 months myself on some new appeal regulations that we are about ready to publish. The people who use the forests, purchasers of timber, cattlemen who graze on the forests, or those who use the forest lands for recreational purposes, have always complained about the Forest Service passing on appeals from its own decisions. And for that reason, we advised the Secretary to set up an appeals procedure and we have been in the process of doing that. It would provide for a Forest Board of Appeals in the Department, which would have final authority to pass on contract cases. And in other matters the Board would have authority to make recommendations to the Secretary concerning appeals of that sort.

RURAL ELECTRIFICATION PROGRAM

In the rural electrification program, our current efforts are intensively directed toward more numerous and more complex power-pooling activities between REA borrowers and other electric suppliers, including commercial power companies and Federal and State power-marketing agencies.

Federal Power Commission proceedings involving jurisdiction over REA-financed cooperative borrowers and the consideration of special wholesale rate arrangements affecting these cooperatives are presenting new areas of legal work. In fact, the announced objective of the Commission to seek coordination of the Nation's power systems, including its national power survey, has opened up an area of work which has heretofore been largely dormant.

FARMERS HOME ADMINISTRATION PROGRAM

The funding of the various functions and responsibilities of the Farmers Home Administration, particularly rural housing, has demanded considerable attention to possible authorizations of law providing funds by alternate means other than direct appropriation, including increased participation by private lending and financing sources.

MARKETING AND REGULATORY ACTIVITIES

In the area of marketing and regulatory activities, during the first 6 months of fiscal year 1964, 122 formal administrative proceedings under the Packers and Stockyards Act were initiated, 41 disciplinary, 64 reparation, and 17 rate, as compared with 107 instituted during the comparable period in fiscal year 1963. Although proceedings were terminated at approximately the same high rate maintained in fiscal year 1963, the number of cases pending on January 1, 1964, increased to 130, compared with 108 on July 1, 1963, and 77 on July 1, 1962.

There are presently pending in the Department several important proceedings involving complicated and novel issues under title II of the Packers and Stockyards Act which prohibit monopolistic and restraint of trade practices, as well as other unfair, unjustly discriminatory and deceptive practices, by meatpackers and live poultry dealers and handlers. The Department also is engaged in several widespread

investigations of operations in the poultry industry. It is anticipated that these investigations will be completed sometime during fiscal year 1965. These investigations have created novel legal problems and it is anticipated that a considerable volume of legal work will be necessary as the investigations continue.

The heavy workload in legal activities in connection with the administration and enforcement of marketing agreements and orders, which was noted in previous years, has been continuing. Whereas in 1953, there were 75 active order programs, today there are 129, consisting of 82 milk orders, 45 relating to fruits and vegetables, and 2 to other commodities.

In the fall of 1963, decisions were issued substantially amending the New York-New Jersey and New England marketing orders covering the compensatory payment issues and other related matters, and the orders since have been amended following referendums among producers. In January 1964, recommended decisions were issued providing for the amendment in various ways of the remaining 76 marketing orders scattered throughout the United States, and as of this time, time for filing exceptions to such decisions has been extended and has not expired.

Since last June, a number of cases centering on the extensive Chesapeake Bay milk marketing order litigation were finally disposed of and substantial sums of money distributed to the producers from which they had been withheld, thus resulting in a reduction in the number of cases pending on March 1, 1964, as compared with the close of fiscal year 1963. However, as of March 1, 1964, there were pending under these programs, 38 criminal proceedings, 79 civil proceedings, and 37 administrative review proceedings under section 8c(15)(A) of the act, which represents a far higher level of unresolved cases than the average of the last 10 years.

Mr. Chairman, at this point I would like to make reference to a matter that the committee might have some interest in.

Some 2 or 3 months ago Under Secretary Murphy gave a talk at the Vanderbilt Law School at Nashville on the regulatory functions of the Department. It is quite interesting, I think, as it shows the far-flung activities of the Department of Agriculture in the regulatory field. Most people don't think of the Department of Agriculture as being a regulatory agency and yet our regulatory activities far exceed those of any other agency of Government, including the Federal Trade Commission and other purely regulatory agencies.

I would be happy to make copies of that talk available to members of the committee, if you would have any interest in it?

Mr. NATCHER (presiding). We would like to have that done. At this point in the record we would like to have a list of all of the regulatory agencies and activities in the Department of Agriculture.

(The requested list follows:)

LIST OF AGENCIES IN THE DEPARTMENT ADMINISTERING REGULATORY ACTIVITIES AND THE PRINCIPAL REGULATORY STATUTES ADMINISTERED BY THE DEPARTMENT

PART I

1. Agricultural Marketing Service—administers all the regulatory laws set forth in Part II other than those listed below.
2. Commodity Exchange Authority.
   No. 29—Commodity Exchange Act (7 U.S.C. 1 et seq.).

3. Agricultural Research Service.
   No. 11—Twenty-Eight Hour Law (45 U.S.C. 71 et seq.).
   No. 12—Agricultural Marketing Act of 1946, Sections 203(h) and (n) and 205 (7 U.S.C. 1622(h) and (n), 1624). (With respect to certain programs only.)
   No. 14—Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. 135–135k).
   No. 30—Anti-Hog-Cholera Serum and Hog Cholera Virus Marketing Agreement Act (7 U.S.C. 851–855).
   No. 31—Virus-Serum-Toxin Act (21 U.S.C. 151 et seq.).
   No. 32—Meat Inspection Laws (21 U.S.C. 71 et seq.; 19 U.S.C. 1306(b), (c)).
   No. 33—Humane Slaughter Act (7 U.S.C. 1901 et seq.).
   No. 35—Animal Quarantine and Related Laws (21 U.S.C. and Supp. 101–131; 19 U.S.C. 1306(a), (c); 19 U.S.C. 1201, par. 1606; 46 U.S.C. 466a, b).
   No. 36—Poultry and Turkey Improvement Authority (7 U.S.C. 429).
   No. 37—Plant Quarantine Act and Related Legislation (7 U.S.C. 145–167).
   No. 38—Federal Food, Drug and Cosmetic Act, Section 408 (21 U.S.C. 346a).
4. Committee composed of General Counsel, Administrator of Agricultural Marketing Service, and Administrator of the Farmer Cooperative Service.
   No. 2—Capper-Volstead Act (7 U.S.C. 291–292).
5. Agricultural Stabilization and Conservation Service.
   No. 39—Sugar Act of 1948, as amended (7 U.S.C. 1100 et seq.).
   No. 40—Title III of the Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1301–1393).

PART II. STATUTES GOVERNING REGULATORY ACTIVITIES

The following is a summary statement of the principal regulatory statutes relating to the operations of the Department of Agriculture. It is greatly abbreviated and many details are omitted.

1. Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601, 602, 608a–608e, 610, 612, 614, 624, 671–674)—in order to establish and maintain such orderly marketing conditions with respect to agricultural commodities in interstate commerce as will establish parity prices to producers of such commodities other than milk, and as will establish prices to producers of milk which will reflect various economic factors affecting the market supply and demand for milk and its products in a marketing area, insure a sufficient quantity of pure and wholesome milk, and be in the public interest; to establish and maintain such minimum standards of quality and maturity and such grading and inspection requirements for such commodities other than milk as will effectuate their orderly marketing and be in the public interest; and to provide, in the interest of producers and consumers, an orderly flow of the commodities to market to avoid unreasonable fluctuations in supplies and prices; provides:

(*a*) *Agreements.*—Any agricultural commodity or product thereof the Secretary may enter into marketing agreements, after due notice and opportunity for hearing, with handlers of such commodity;

(*b*) *Orders.*—Milk, fruits (except for canning and freezing), tree nuts, tobacco, vegetables (except for canning and freezing, other than asparagus), soybeans, hops, honeybees, and naval stores—the Secretary shall, only after public hearings and certain additional procedure including producer approval, issue orders—

(1) with respect to milk, to fix or provide a method of fixing minimum prices which handlers shall be required to pay for milk received from producers based on use classification and pooling; and

(2) with respect to other commodities, to limit the volume, grade, quality, and size which may be handled, fix the size, pack, etc., of containers therefor and authorize certain marketing research and development projects; and

(3) such orders are subject to special judicial review (7 U.S.C. 608c(15)) and special criminal and civil enforcement sanctions.

(*c*) *Import restrictions.*—Prohibits the importation of specified commodities if domestic production is regulated by a marketing order unless the importation meets the grade, size, quality, and maturity requirements of such order or comparable restrictions.

2. Capper-Volstead Act (7 U.S.C. 291–292)—

(*a*) Authorizes persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers to act together in association in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged;

(*b*) Provides that such associations may have marketing agencies in common;

(*c*) Specifies certain requirements with respect to the organization and operation of such associations;

(*d*) Prohibits any such association which may monopolize or restrain trade from unduly enhancing the price of any agricultural products by reason thereof; and

(*e*) Authorizes a procedure whereby, when the Secretary has reason to believe that action is justified, he may file complaint against any such association and after hearing issue a cease and desist order, which would be subject to judicial review.

3. Packers and Stockyards Act (7 U.S.C. 181 et seq.)—Regulates the marketing of livestock in interstate commerce, the marketing of live poultry at live poultry markets designated by the Secretary and the activities of meat packers engaged in interstate commerce, and

(*a*) Prohibits unfair, unjustly discriminatory or deceptive practices by packers, live poultry dealers and handlers, stockyard owners, and livestock market agencies and dealers in interstate commerce; and unjust and unreasonable rates for stockyard service and services in connection with marketing of live poultry at designated markets; and monopolistic practices by packers;

(*b*) Requires livestock market agencies and dealers operating at posted stockyards to register with the Secretary and authorizes the Secretary to require bonds of such persons and to require other livestock market agencies and dealers operating in interstate commerce to be registered and to furnish bonds;

(*c*) Requires licenses for live poultry dealers and handlers operating at designated live poultry markets;

(*d*) Authorizes the Secretary, after notice and hearing—

(1) to issue cease and desist orders against violators of the act;

(2) to prescribe reasonable rates for services and facilities furnished by stockyard owners, market agencies, and live poultry licensees;

(3) to order payment by persons subject to the act of reparations for damages resulting from certain violations of the act;

(4) to suspend registrations and to suspend or revoke licenses; and

(5) to prescribe the manner and form of keeping records when he finds that proper records are not being kept;

(*e*) Empowers the Secretary to authorize a brand inspection agency in any State where branding prevails to inspect brands of livestock from such State at posted stockyards and to charge fees for such inspection; and to suspend or revoke any such authorization after hearing;

(*f*) authorizes the Secretary to promulgate regulations under the act;

(*g*) authorizes the Secretary to conduct investigations.

4. Perishable Agricultural Commodities Act, 1930 (7 U.S.C. 499a–499r)—Regulates commission merchants, dealers, and brokers engaged in the handling and marketing of fresh fruits and vegetables in interstate and foreign commerce, and:

(*a*) Prohibits—

(1) unfair and fraudulent practices in the marketing of perishable agricultural commodities (fresh or frozen fruits and vegetables and cherries in brine);

(2) refusal to accept or failure to deliver in accordance with the terms of the contracts involved;

(*b*) Requires—

(1) every commission merchant, dealer, or broken to obtain a license from the Secretary;

(2) true and correct accounts and full payment to be made promptly;

(*c*) Authorize the Secretary—

(1) to suspend or revoke license of a violator of the act, after appropriate hearing;

(2) to issue rules and regulations defining trade terms, etc., and procedure for the obtaining and suspension or revocation of licenses;

(3) to award reparation, investigate complaints, and to refer cases to the Department of Justice for prosecution;

(*d*) Provides—

(1) penalties for operating without a license;

(2) for awards of reparation to damaged parties.

5. Produce Agency Act (7 U.S.C. 491–497)—in connection with fruits, vegetables, melons, dairy or poultry products, or any perishable farm product—

(*a*) Prohibits the destruction and dumping, without good and sufficient cause, of farm products received in interstate commerce by commission merchants and others;

(*b*) Requires such persons properly to account for all farm products received by them;

(*c*) Authorizes the Secretary to make rules and regulations for the administration of the act; and

(*d*) Makes violation of the act a criminal offense.

6. Renovated Butter Act (26 U.S.C. 2320 et seq.)—Provides—

(*a*) For the supervision of labeling of processed or renovated butter and the inspection of establishments where renovated butter is made and the materials used;

(*b*) For seizure of raw materials and renovated butter deemed unhealthful or unwholesome;

(*c*) Authorizes Secretary to issue regulations, inspect factories and materials, withdraw inspection from any factory where there is failure to comply with the regulations, condemn materials and renovated butter found to be unwholesome and unhealthful, and to investigate violations.

7. Transportation sections of Agricultural Adjustment Act of 1938 (7 U.S.C. 1291) and Agricultural Marketing Act of 1946 (7 U.S.C. 1622(j))—Authorizes the Secretary to participate in proceedings before the Interstate Commerce Commission, the Federal Maritime Board, the Civil Aeronautics Board, and State regulatory bodies and the Federal courts, concerning rates, charges, and practices relating to the transportation of agricultural products and farm supplies.

8. United States Warehouse Act (7 U.S.C. 241 et seq.)—Authorizes a permissive program regulating the storage of agricultural products intended for interstate and foreign commerce, for the protection of depositors of such products and the stabilization of warehouse receipts; requires, as a condition to the granting of a license, that a warehouseman-applicant furnish bond; prohibits licensed warehousemen from discriminating between customers desiring to avail themselves of warehouse facilities; and requires warehousemen to issue receipts and to keep records in compliance with provisions of the act. The act authorizes the Secretary—

(*a*) To license warehousemen upon request if he finds that their facilities meet the requirements of the act;

(*b*) To license persons to sample, inspect, classify, and weigh agricultural products at licensed warehouses;

(*c*) To establish standards for agricultural products;

(*d*) To issue regulations;

(*e*) To conduct investigations of warehousing, classifying, weighing, and certifying agricultural products and operations of licensed warehouses;

(*f*) To suspend or revoke licenses after appropriate hearings;

(*g*) To publish findings re violations by licensed warehousemen, the results of certain investigations, and certain other data;

(*h*) To report violations to the Department of Justice for criminal prosecution, and to order reimbursement of injured parties out of fines collected.

9. Standard Containers Act of 1916 (15 U.S.C. 251–256)—Establishes standards for baskets, boxes, and similar containers for small fruits and vegetables moving in interstate commerce, and

(*a*) Prohibits the manufacture, shipment, or sale of containers not conforming to standards established;

(*b*) Authorizes the Secretary to issue rules and regulations allowing reasonable tolerances; and

(*c*) Authorizes the Secretary to examine and test baskets or other containers to determine whether they comply with the established standards.

10. Standard Containers Act of 1928 (15 U.S.C. 257–257i)—establishes standards for hampers, round stave baskets, and split baskets for fruits and vegetables moving in interstate or foreign commerce, and

(*a*) Prohibits the manufacture, shipment, or sale of containers not conforming to standards established;

(*b*) Prohibits manufacture of such containers unless specifications have been submitted to and approved by the Secretary;

(*c*) Authorizes the Secretary to examine and test containers to determine whether they comply with the established standards; and

(*d*) Authorizes the Secretary to issue rules and regulations allowing reasonable tolerances.

11. Twenty-Eight Hour Law (45 U.S.C. 71 et seq.)—to prevent cruelty to animals shipped interstate and to prevent losses while in transit—

(*a*) Prohibits the confining of livestock in railroad cars or vessels for longer than 28 hours without unloading for feed, water, and rest for at least 5 consecutive hours except under specified unavoidable circumstances;

(*b*) Permits time of confinement to be extended to 36 hours upon request of the shipper; and

(*c*) Authorizes the Secretary to report violations for prosecution.

12. Agricultural Marketing Act of 1946, sections 203 (h) and (n) and 205 (7 U.S.C. 1622 (h) and (n), 1624)—authorize and direct the Secretary to inspect and certify the class, quality, quantity, and condition of agricultural products in interstate commerce and to conduct such other activities as will facilitate the marketing, distribution, processing, and utilization of agricultural products through commercial channels, and to issue orders, rules, and regulations to carry out the act.

13. Federal Seed Act (7 U.S.C. 1551 et seq.)—regulates the labeling and representations of agricultural and vegetable seed in interstate and foreign commerce to prevent the adulteration, misbranding, or other misrepresentation of such seed; and regulates the importation of seed, and authorizes the Secretary—

(*a*) To issue regulations independently, or jointly with the Secretary of the Treasury;

(*b*) To establish quality standards for seed;

(*c*) To exempt certain mixtures of seed from certain import requirements of the act;

(*d*) To determine that certain seed is not adapted for use in the United States and to require red staining thereof;

(*e*) To make inspections and investigations;

(*f*) To issue cease-and-desist orders after appropriate hearings and publish notices of judgment;

(*g*) To report violations to the Department of Justice for criminal, civil penalty, or seizure action;

(*h*) To approve foreign seed certification agencies;

(*i*) To approve certain label descriptions; and

(*j*) To cooperate with Federal, State, and other agencies.

14. Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. 135–135k)—To prevent injury to persons, animals, and useful plants from harmful or ineffective economic poisons and pest control devices—

(*a*) Prohibits movement in interstate or foreign commerce and the importation of economic poisons that are adulterated or not properly labeled and of devices which are misbranded;

(*b*) Requires registration of economic poisons with the Secretary;

(*c*) Authorizes the Secretary—

(1) to issue regulations independently or jointly with the Secretary of the Treasury;

(2) to cancel registrations under certain conditions;

(3) to examine samples of economic poisons and devices offered for importation;

(4) to publish notices of judgment.

15. U.S. Grain Standards Act (7 U.S.C. 71 et seq.)—

(*a*) Generally prohibits shipment in interstate or foreign commerce of grain sold by grade unless the grain is inspected and graded by a licensed inspector and requires the use of the official grain standards of the United States in such sales;

(*b*) Authorizes the Secretary—

(1) to establish official standards for grain;

(2) to issue licenses to inspect and grade grain;

(3) to revoke or suspend licenses after hearing;

(4) to publish findings as to whether grain was incorrectly graded or sold under false or misleading name, description, or designation;

(5) to determine the true grade of grain upon appeal or in a dispute as to the correct grade of grain; and

(6) to issue regulations.

16. Wool Standards Act (7 U.S.C. 415b–d)—Authorizes the Secretary—

(*a*) To establish official standards for grades of wool;

(*b*) To sell practical forms of the official standards;

(*c*) To publish information relating to the standardization, grading, preparation for market, marketing, utilization, transportation, handling, and distribution of wool.

17. Cotton Standards Act (7 U.S.C. 51–65)—Provides for the establishment of standards of quality for cotton and prohibits any person indicating for any cotton (coming within an official standard) a grade, class, name, description, or designation not used in the official cotton standards and authorizes the Secretary—

(*a*) To establish standards of quality for cotton;

(*b*) To license samplers and classifiers;

(*c*) To suspend or revoke licenses;

(*d*) To issue regulations;

(*e*) To collect fees;

(*f*) To enter into agreements with cotton associations, cotton exchanges and other cotton organizations in foreign countries for the adoption and use of universal standards for cotton;

(*g*) To cause investigations, tests, and demonstrations to be made and publications to be issued; and

(*h*) To cooperate with other Federal and with State agencies and others.

18. Cotton Statistics and Estimates Act (7 U.S.C. 471–474), as amended (74 Stat. 328–329), July 5, 1960—

(*a*) Directs the Secretary to collect and publish annually statistics or estimates concerning the grades and staple length of stocks of cotton, and in addition, to publish at intervals his estimate of the grades and staple length of cotton of the 10 current crop;

(*b*) Directs the Secretary to collect and disseminate timely information as to market supply, demand, location, condition, and market prices for cotton;

(*c*) Requires the Secretary, under certain prescribed conditions, to issue reports on the condition and progress of the cotton crop and the probable number of bales and the number of acres of cotton in cultivation;

(*d*) Requires owners of cotton warehouses and others to furnish information concerning grades and staple length of cotton on hand and to permit the examination of such cotton upon request of the Secretary or his agents, and that such information be treated as strictly confidential;

(*e*) Authorizes the Secretary to have analyses of fiber property and other tests made of cotton samples submitted by interested persons upon payment of such fees as may be prescribed by the Secretary;

(*f*) Authorizes the Secretary to have cotton classified without charge for associations of producers interested in the improvement of cotton;

(*g*) Provides criminal penalties regarding the improper sampling of cotton.

19. Tobacco Inspection Act (7 U.S.C. 511–511q)—authorizes the Secretary—

(*a*) To establish standards of quality and condition of tobacco and to officially inspect and certify the type and grade of tobacco in accordance with such standards;

(*b*) To designate auction markets for mandatory inspection after referendums have been conducted and such markets have been approved by a specified percentage of producers;

(*c*) Prohibits the sale of tobacco on designated markets which has not been officially inspected and certified.

20. Tobacco Seeds and Plants Exportation Act (7 U.S.C. 516–517)—makes it unlawful to export any tobacco seed or live tobacco plants from the United States or any territory to any foreign country except pursuant to written permit granted by the Secretary, and—

(*a*) Authorizes the Secretary to grant permits only upon application and after satisfactory proof that such seed or plants are to be used for experimental purposes only; and

(*b*) Provides that violations of the act are punishable by fine or imprisonment or both.

21. Tobacco Statistics Act (7 U.S.C. 501–508)—Authorizes the Secretary—

(*a*) To collect and publish statistics of the quantity of leaf tobacco in all forms in the United States and Puerto Rico, such statistics to show quantity of tobacco by types, groups, or grades, and such other subdivisions as to quality, color, and/or grade for the particular types as the Secretary shall deem practical;

(*b*) To establish standards for the classification of leaf tobacco and the demonstration of such standards; and

(*c*) Provides that failure to furnish information requested by the Secretary is punishable by fine or imprisonment or both.

22. Peanut Statistics Act (7 U.S.C. 951–957)—Authorizes the Secretary—

(*a*) To collect and publish statistics of raw peanuts and peanut oil;

(*b*) To establish and promulgate grades and standards for the classification of peanuts;

(*c*) Requires persons dealing in peanuts to furnish information requested by the Secretary; and

(*d*) Provides that failure to furnish requested information or giving of false and misleading information are punishable by fine or imprisonment or both.

23. Naval Stores Act (7 U.S.C. 91 et seq.)—To prevent fraud in the sale of naval stores (turpentine and rosin)—

(*a*) Establishes official naval stores standards for certain types of turpentine and rosin;

(*b*) Prohibits the sale in interstate commerce of any naval stores or anything offered as such except by reference to official standards;

(*c*) Prohibits false or deceitful practices in connection with naval stores or anything offered as such;

(*d*) Authorizes the Secretary—

(1) to modify standards and to establish additional standards, after opportunity for hearing;

(2) to loan duplicates of standards to interested persons;

(3) to analyze and certify naval stores on request and collect fees therefor;

(4) to purchase and analyze samples of naval stores and other products offered for sale as such, and to publish results of such analyses; and

(5) to report violations for prosecution.

24. Honeybee Act (7 U.S.C. 281–283)—

(*a*) Prohibits the importation of adult honeybees in order to prevent the introduction and spread of dangerous honeybee diseases, except for such importation by the USDA for scientific purposes and from countries in which the Secretary determines that no diseases dangerous to honeybees exist; provides criminal penalties, and

(*b*) Authorizes the Secretary to propogate breeding stock.

25. Dairy Products for Export Act (21 U.S.C. 94a)—prohibits the exportation of dairy products unless the same shall have been inspected and certified as to quality, purity, and grade and so marked, stamped, or labeled as to secure its identity; and makes the provisions of the Meat Inspection Act (21 U.S.C. 71–91) applicable to the exercise of this authority.

26. Export Apple and Pear Act (7 U.S.C. 581–589)—

(*a*) Prohibits the exportation of apples and pears not accompanied by a certificate showing that such apples or pears are of a Federal or State grade which meets the minimum quality established by the Secretary for shipment and export;

(*b*) Authorizes the Secretary—

(1) to establish or designate standards of export;

(2) to issue regulations governing such exportation;

(3) to inspect such commodities;

(4) to refuse, after hearing, to issue certificate for not to exceed 90 days to any person who ships in violation of the act; and

(5) to cooperate with State and other governmental agencies.

27. Export Grape and Plum Act (Public Law 86–687, 86th Cong., approved Sept. 2, 1960; 74 Stat. 734; 7 U.S.C. 591–599)—provides, as to certain grapes and plums, for export restrictions similar to those provided in the Export Apple and Pear Act.

28. Cotton Futures Act (26 U.S.C. 4851 et seq.)—for the protection of producers and buyers of cotton through regulation of activities of middlemen—

(*a*) Levies a tax on contracts of sale of cotton for future delivery made at any exchange or board of trade;

(*b*) Provides that no futures contract is enforcible in any court of the United States by any of the parties which does not have tax stamp affixed and is not in specified form: in writing plainly stating the terms of the contract including the quantity of cotton involved, and the names and addresses of the seller and buyer, and signed by the party to be charged or his agent;

(*c*) Exempts certain kinds of futures contracts from tax: the so-called basis grade, tendered grade, and specific grade contracts as defined in the act;

(*d*) Authorizes the Secretary—

(1) to establish standards for cotton;

(2) to designate spot markets;

(3) to publish the results of certain investigations;

(4) to obtain information on cotton transactions;

(5) to issue regulations for the classification of cotton.

(provides for performance by the Secretary of the Treasury of certain functions).

29. Commodity Exchange Act (7 U.S.C. 1 et seq.)—to prevent unfair trade practices, manipulation of prices, or cornering through transactions on commodity exchanges (contract markets) of wheat, cotton, rice, corn, oats, barley, rye, flaxseed, grain sorghums, mill feeds, butter, eggs, Irish potatoes, wool, wool tops, fats and oils, cottonseed meal, cottonseed, peanuts, soybeans and soybean meal—

(*a*) Authorizes the Commodity Exchange Commission, composed of the Secretary, the Secretary of Commerce, and the Attorney General, after notice and hearing—

(1) to establish limits on trading in futures by any person on a contract market;

(2) to suspend or revoke the designation of a board of trade as a contract market;

(3) to issue orders directing boards of trade and their agents to cease and desist from violating the act or the regulations of the Commission thereunder;

(4) to prescribe, after hearing upon complaint filed by a board of trade, that a cooperative association or corporation shall retain, or, for reasons specified in the statute, be excluded from, membership in such board of trade;

(5) to review a refusal by the Secretary to designate a board of trade as a contract market.

(*b*) Authorizes the Secretary—

(1) to designate boards of trade as "contract markets" and to vacate designation of any board upon its request;

(2) to register futures commission merchants and floor brokers;

(3) to suspend or revoke registrations after notice and hearing, and to deny for cause trading privileges to any person on a contract market;

(4) to make investigations and publish certain information;

(5) to inspect, and to prescribe the form of, records of contract markets and registrants;

(6) to require reports from contract markets and registrants;

(7) to inspect certain warehouses; and

(8) to establish periods for delivery of commodities after cessation of trading in such commodities.

30. Anti-Hog-Cholera Serum and Hog-Cholera Marketing Agreement Act (7 U.S.C. 851–855)—to insure the maintenance of an adequate supply of serum and virus and to prevent undue and excessive fluctuations, unfair methods of competition and unfair trade practices—authorizes the Secretary—

(*a*) To enter into marketing agreements and to issue orders for the regulation of marketing of serum and virus in interstate commerce after appropriate administrative proceedings; and

(*b*) To enforce agreements and orders by criminal or civil court actions.

31. Virus-Serum-Toxin Act (21 U.S.C. 151 et seq.)—

(*a*) Prohibits preparation or sale in places under Federal jurisdiction, interstate shipment, and importation into the United States of any worthless, contaminated, dangerous, or harmful virus, serum, toxin, or analogous product intended for use in treatment of domestic animals;

(*b*) Requires licenses for preparation, sale, or interstate shipment of such products intended for such use;

(*c*) Requires permits for importation of such products;

(*d*) Authorizes the Secretary, after opportunity for hearing, to suspend or revoke licenses issued under the act and to deny permits for the importation of regulated products which are worthless, contaminated, dangerous, or harmful.

32. Meat inspection laws (21 U.S.C. 71 et seq.; 19 U.S.C. 1306 (b), (c))—to prevent the distribution in interstate or foreign commerce or the importation of meat and meat food products not fit for human food—the Meat Inspection Act, the Horse Meat Act, and the import meat provisions of the Tariff Act of 1930, regulate the preparation of meat and meat food products of cattle, sheep, swine, goats, and horses for such commerce, and their importation into the United States.

The Meat Inspection Act and the Horse Meat Act authorize the Secretary—

(*a*) To provide Federal inspection at slaughtering and similar establishments where meat or meat food products of cattle, sheep, swine, goats, or horses are prepared for interstate or foreign commerce;

(*b*) To withdraw inspection from establishments failing to destroy condemned meat and meat food products or to maintain sanitary conditions;

(*c*) To approve labels of meat and meat food products;

(*d*) To cause inspection and certification of such animals and meat for export;

(*e*) To waive in certain cases, the requirement of export certificates imposed by the law; and

(*f*) To grant certain exemptions from inspection requirements to retail butchers and dealers and with respect to farm prepared meats and meat food products.

The Tariff Act of 1930 authorizes the Secretary to issue regulations governing the importation of meat and meat food products and authorizes the Secretary to prescribe the terms and conditions for the destruction of products refused admission and not exported within specified time.

33. Humane Slaughter Act (7 U.S.C. 1901 et seq.)—Authorizes the Secretary to designate humane methods for slaughtering and handling of livestock, and to provide means of identifying carcasses of livestock slaughtered by humane methods at federally inspected establishments.

34. Poultry Products Inspection Act (21 U.S.C. 451 et seq.)—To prevent the distribution in interstate or foreign commerce or in the District of Columbia or a designated major consuming area, of poultry products not fit for human food or improperly labeled; to prevent, except as authorized under the act, the distribution in such commerce, or in the District of Columbia or a designated major consuming area, or from an official establishment, of slaughtered poultry, or parts thereof, not classified as poultry products (e.g. New York dressed poultry); and to prevent the importation of any slaughtered poultry, or parts or products thereof, which are not fit for human food or do not comply with the regulations under the act. The act provides for designation by the Secretary of major consuming areas. It provides for inspection of processing of poultry and poultry products for distribution under the act and contains detailed labeling provisions. It authorizes the Secretary to issue regulations to carry out the act and to exempt from specific provisions of the act, under certain conditions—poultry producers with respect to poultry of their own raising, retail dealers with respect to poultry products sold directly to consumers, and any persons slaughtering, processing, or otherwise handling poultry or poultry products which have been or are to be processed as required by recognized religious dietary laws. The act authorizes the Secretary to refuse to render inspection and to suspend or terminate any exemption under certain circumstances. The Secretary is also authorized to direct that use of labels be withheld unless modified as the Secretary prescribes.

35. Animal quarantine and related laws (21 U.S.C. and Supp. 101–131; 19 U.S.C. 1306 (a), (c); 19 U.S.C. 1201, par. 1606; 46 U.S.C. 466 a, b):

The acts of May 29, 1884, August 30, 1890, February 2, 1903, March 3, 1905, February 28, 1947, June 16, 1948, and section 306 of the Tariff Act of 1930, as amended and extended—To prevent the introduction into and dissemination within the United States of contagious, infectious, or communicable diseases of livestock and poultry, to extirpate such diseases, and to prevent the exportation of diseased livestock and poultry.

(*a*) Direct the Secretary to give notice of the existence of contagious, infectious, or communicable diseases in any State, territory, or the District of Columbia;

(*b*) Prohibit thereafter interstate movement of livestock or poultry therefrom by anyone knowing them to be diseased;

(*c*) Authorize the Secretary—

(1) to cooperate with States, territories, possessions, Mexico, certain organizations, and individuals in promulgating regulations and taking measures to control and eradicate animal and poultry diseases;

(2) to conduct research and make investigations concerning diseases and certain parasites;

(3) to provide for inspection of imported animals;

(4) to prescribe the manner in which food, litter, clothing, and appliances accompanying imported animals shall be dealt with;

(5) to quarantine animals at quarantine ports designated by him with the approval of the Secretary of the Treasury;

(6) to cause to be slaughtered imported animals found to be infected or exposed to infection;

(7) to seize, quarantine and dispose of hay and similar material and meats and other animal products coming from infected foreign countries or moving interstate;

(8) to determine whether rinderpest or foot-and-mouth disease exists in any foreign country and give notice thereof, and thereafter the importation of ruminants and swine, and fresh chilled, and frozen meat of such animals from such country is prohibited until the Secretary has given notice

that such disease no longer exists in such country: provided, however, that wild ruminants and swine may be imported under specified conditions;

(9) to seize and dispose of any wild ruminants of swine imported from a rinderpest or foot-and-mouth diseased country which are not handled in accordance with prescribed conditions;

(10) to quarantine any State, territory, or the District of Columbia when he determines that livestock or poultry are affected with any contagious, infectious, or communicable disease and to give notice thereof;

(11) to issue regulations permitting and governing the interstate transportation of livestock or poultry therefrom and to issue certain other regulations and take measures to prevent the introduction or dissemination of any such disease;

(12) to provide for the inspection of animals intended for exportation and the disinfection of vessels, attendants and their clothing, and appliances involved in such exportation; and

(13) to prevent the exportation of diseased livestock and poultry generally.

The act of March 3, 1891, as amended—To assure humane treatment and safe transportation of certain animals exported from the United States—authorizes the Secretary—

(*a*) To examine vessels on which such animals are to be exported;

(*b*) To prescribe by rule, regulation, or order the accommodations which the vessels shall provide for such animals;

(*c*) To direct that if the owner or master of any such vessel wilfully violates any rule, regulation, or order issued under the Act, the vessel shall be prohibited from carrying such animals from any port of the United States for a period not exceeding one year.

The Tariff Act of 1930, as amended, section 201, paragraph 1606—

(*a*) Permits the importation of any animal, except certain foxes, duty free, by a U.S. citizen specially for breeding purposes, if such animal is purebred of a recognized breed and registered in a book of record recognized by the Secretary;

(*b*) Authorizes the Secretary to make rules and regulations for the purpose of recognizing breeds and books of record, and determining the purity of breeding and the identity of such animals.

36. Poultry and turkey improvement authority (7 U.S.C. 429)—Authorizes the Secretary to cooperate with authorities of the States, the District of Columbia, and Puerto Rico in the administration of regulations for the improvement of poultry, poultry products, and hatcheries. The national poultry improvement plan and the national turkey improvement plan, prescribing requirements that must be met by breeders and hatcherymen desiring to participate in the programs, have been established under this authority; and participation by such persons entitles them to use certain official trademarks and terminology showing compliance with the requirements of the plans.

37. Plant Quarantine Act and related legislation (7 U.S.C. 145–167)—To prevent the introduction into, or the dissemination within, the United States of plants, plant products. or other articles carrying insect pests and plant diseases.

Plant Quarantine Act (7 U.S.C. 151 et seq.)—Imposes certain permit and other requirements upon the importation of nursery stock into the United States, and authorizes the Secretary—

(*a*) To impose the same requirements on importations of other plants and plant products;

(*b*) To prohibit importations of nursery stock, other plants and plant products;

(*c*) To quarantine any State, territory, or district of the United States and prescribe conditions for the movement therefrom to any other State, territory, or district of plants, plant products, and other articles capable of carrying insect pests or plant diseases, upon the making of determinations after public hearings;

(*d*) To regulate movements of plants and plant products into and from the District of Columbia and require eradication of insect infestations and plant infections in the District.

Federal Plant Pest Act (7 U.S.C. 150aa et seq.)—Authorizes the Secretary to issue permits for the movement of plant pests into or through the United States or interstate and to apply emergency measures and issue regulations to prevent dissemination of plant pests.

Mexican Pink Bollworm Act (7 U.S.C. 145)—To prevent the entry into the United States of insect pests from Mexico, authorizes the Secretary—

(*a*) To make surveys to determine the distribution of pink bollworm in Mexico;

(*b*) To establish zones free from cotton culture near the Mexican border in cooperation with the States concerned; and

(*c*) To cooperate with Mexican authorities in extermination of local infestations near the border of the United States.

Joint resolution of February 8, 1930 (46 Stat. 67 (omitted from U.S.C.))—Authorizes Secretary to make payments in cooperation with States, to compensate farmers for losses from enforced nonproduction of cotton in noncotton zones established by the States to eradicate pink bollworm.

Act of February 9, 1927, and the act of May 24, 1928 (7 U.S.C. 146, 147)—Authorize the Secretary to cooperate with States, organizations, and individuals in eradication or control of the European corn borer.

Department of Agriculture Organic Act of 1944, section 102 (7 U.S.C. 147a)—Authorizes the Secretary—

(*a*) To carry out measures to eradicate, control, or prevent the spread of certain insects and plant diseases, independently or in cooperation with the States, territories, and possessions of the United States, the District of Columbia and Mexican authorities; and

(*b*) To provide for inspection of domestic plants and plant products for export and their certification as free from insect pests and plant diseases.

Insect Control Act of April 6, 1937 (7 U.S.C. 148)—Authorizes the Secretary, in cooperation with the States, to apply such methods for the control of incipient or emergency outbreaks of insect pests or plant diseases as may be necessary.

Mexican Border Act (7 U.S.C. 149)—Authorizes the Secretary to promulgate regulations restricting entry from Mexico into the United States of railway cars and other vehicles and freight and other materials which may carry insect pests and plant diseases and providing for the inspection, cleaning and disinfection of such vehicles and materials.

Golden Nematode Act (7 U.S.C. 150–150g)—Authorizes the Secretary independently or in cooperation with State and local governmental agencies and other organizations and individuals to eradicate and prevent the spread of the golden nematode, including cooperation with States and other agencies in making inspections, applying suppressive measures, enforcing quarantines, destroying potatoes and tomatoes in infested or exposed areas, and compensating growers in such areas.

Terminal Inspection Act (7 U.S.C. 166)—To prevent entry into any State of pests injurious to agriculture—provides—

(*a*) That when any State establishes terminal inspection of plants and plant products shipped into its territory, the State may submit to the Secretary a list of plants and plant products and the plant pests transmitted thereby which should be subject to terminal inspection; and

(*b*) That after approval of such list by the Secretary and its transmission to the Postmaster General, all packages containing any plants or plant products named in the list are required to be forwarded by the postmaster at the destination of such packages to the proper State inspection office for proper disposal.

Act of July 14, 1952 (7 U.S.C. 1651)—To protect livestock industry from losses caused by the poisonous weed Halogeton glomeratus—authorizes the Secretary with respect to public lands, other than those under jurisdiction of Interior Department, and private lands, to conduct research and control operations.

38. Federal Food, Drug and Cosmetic Act, section 408 (21 U.S.C. 346a)—Authorizes the Secretary to certify to the Secretary of Health, Education, and Welfare with respect to the usefulness of pesticide chemicals for which a tolerance or exemption is sought under that act and to furnish his opinion whether the proposed tolerance or exemption reasonably reflects the amount of residue likely to result when the chemical is used as proposed.

39. Sugar Act of 1948, as amended (7 U.S.C. 1100 et seq.) (which expires March 31, 1961), establishes quotas for domestic and foreign areas supplying the sugar consumption requirements of the United States and provides for conditional payments to domestic producers of sugarbeets and sugarcane, as follows:

(*a*) *Quotas.*—The Secretary makes an annual estimate of the sugar consumption requirements of the United States. Under statutory criteria these require-

ments are prorated as quotas to domestic areas and foreign areas. The domestic quota is further apportioned among the domestic beet area, the mainland cane area, Hawaii, Puerto Rico and the Virgin Islands. The foreign quota is apportioned to certain foreign countries. No sugar may be brought into the continental United States in excess of the applicable quota and no sugar produced from beets or cane in the continental United States may be marketed in interstate commerce in excess of the domestic beet or cane quota. Specific allocations of the domestic cane or beet quotas may be imposed on processors of domestic beets or cane by the Secretary after hearing.

(*b*) *Conditional payments.*—Direct payments are authorized to domestic producers of sugarbeets and sugarcane who comply wth determinations of the Secretary with respect to proportionate shares for farms, wages and labor, and prices of sugarbeets and sugarcane when the producer is also a processor. Proportionate shares may be in terms of sugar or acreage.

40. Title III of the Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1301–1393).—Provides for:

(*a*) *Acreage allotments and marketing quotas.*—Authorizes acreage allotments and marketing quotas on tobacco, wheat, cotton, rice, and peanuts. Marketing quotas proclaimed by Secretary when required under formulas in act—basically when supplies substantially exceed demand. Quotas to be effective must be approved by two-thirds of producers voting in referendum. The quota for a farm is the actual or normal production of the farm acreage allotment. National acreage allotments are determined by Secretary and are apportioned to States, counties, and farms under statutory criteria. Penalties are imposed on actual marketings of tobacco and peanuts in excess of farm quota and on producers of cotton, wheat, and rice who have acreage in excess of the farm allotment when quotas are in effect.

Mr. MICHEL. Mr. Chairman?

Mr. NATCHER. Yes?

Mr. MICHEL. I wonder how long that speech is?

Mr. BAGWELL. It is about 20 pages, letter size. It might be as long as 30.

Mr. NATCHER. At this point in the record we would also like to have inserted the speech made recently by Under Secretary Murphy at Vanderbilt University concerning the regulatory work of the Department of Agriculture.

(The speech referred to follows:)

FOOD POLICY AND FOOD LAW[1]

U.S. Department of Agriculture, Office of the Secretary

I am very glad to have this opportunity to speak to you about the food policy of the United States and about the place of law in helping to achieve that policy.

I would say that our food policy has three principal aspects: first, to provide an abundant supply of pure and wholesome food for the American people at reasonable and stable prices; second, to use food as a means for achieving a peaceful and prosperous world through international trade and foreign aid; and third, to see that the farmers who produce the food receive a fair level of income.

There are many, many Federal statutes designed to help implement this policy. Some of these laws are old; some are new. They have developed gradually to deal with the changing circumstances under which our Nation has met its food needs since its beginning.

Many years ago, possibly on this very spot, an Indian family worked, enjoyed life, and passed on to their happy hunting ground. Their life was simple because they spent almost all their time working just to have enough to eat. Men hunted, women grew corn and beans, children picked berries. Probably 90 percent or more of their time was occupied in getting food. Today, in the 20th century, the sun still shines on families who spend most of their waking hours struggling to keep their stomachs filled, or just partly filled.

[1] Address by Under Secretary of Agriculture Charles S. Murphy, at profession of law lecture series, Vanderbilt University Law School, Nashville, Tenn., 7:30 p.m., c.s.t., Dec. 12, 1963.

But we in the United States now take our food and full stomachs for granted. If we are hungry, we go to the corner grocery or supermarket or restaurant and buy what we want. I don't think anyone in the room ever heard a storekeeper say, "There's no food today, come back tomorrow." When disaster strikes or when the breadwinner's job disappears, we have an abundance to share with the needy.

We accept low-cost food and interesting menus as part of daily life. Here are two examples:

Some of you in the room who grew up in the depression or before may remember when a Christmas orange in your stocking was a real treat. Today, we calmly accept not only oranges, but avocados, year-round strawberries, and other fruit, chicken available 7 days a week—not just on Sunday, lettuce from California, and we think nothing of eating these once-precious foods without regard to season.

But, you say, we have all these things because we are paying more for our food. This just isn't true. Our agriculture has become so efficient that we actually spend a smaller share of our income for food than any people in the history of the world—19 percent of our take-home pay compared with 26 percent 15 years ago—compared with 30 percent for West Europeans, 50 percent or more for Russians, and up to 90 percent for many less developed nations.

One reason we have so many cars, television sets, suburban homes—and law schools—is that we don't have to spend so much on food. It's because American farmers, and the entire food marketing industry—from field to checkout counter—are so efficient.

It wasn't always this way. One hundred years ago, we had about the same number of farmworkers as today—7 million. Those 7 million, working with handtools, horses, and crude implements, grew enough food for a population of 30 million. Today's 7 million farmworkers grow enough to feed 190 million of us, to sell billions of dollars of agricultural commodities abroad, and to aid the developing nations through Food for Peace as well as care for our own needy.

So today's farmers—7 percent of us—produce five times more than their great-grandfathers did, enabling the other 93 percent of us to live better and enjoy modern life. If we farmed today the way we did 100 years ago, we would need 40 million farmworkers—half our work force—and we still wouldn't be as well fed as we are.

Whether this dramatic improvement of the past century came about because of the Department of Agriculture, or in spite of it, may be a matter for dispute. But the weight of evidence is that the Department, in partnership with the farmer, played no small part in helping to bring about the space age.

In any event, the Congress seems to think the Department does a good job, because for the past 100 years they have been loading one job after another on USDA, until today we have more varied activities than any other Federal agency.

This growth in USDA responsibility and the remarkable increase in the efficiency of American farms has been accompanied by another phenomenon, the development of our food marketing system. A hundred years ago, most people who ate greenbeans went out in the garden and picked them. Marketing was a quick trip from the backyard to the kitchen. Today it's different. The beans are grown where they grow best, often hundreds of miles from your home, and you pick them up at the frozen food counter in the corner supermarket. A lot of things have happened in between. **That's the marketing system.**

The marketing system is taking more and more of our food dollar. Fifteen years ago it was 49 cents. This year we expect it to be 63 cents. That leaves 37 cents for the farmer, from each dollar we spend for food. So you see that the man who produces the food you eat gets only about one-third of the 19 percent of your income you spend on food. In other words, he—the farmer—feeds the rest of us for about 7 percent of our income. You might remember that the next time you hear anyone complain about the farm problem.

Not only does the marketing system take most of your dollar spent for food, but it also provides more jobs than there are in agricultural production. I do not mean to say or imply that it is bad for this much money and this many people to be involved in the food marketing system. The only point I want to make is that it's important, and that if we are going to provide abundant food for the American people at reasonable prices, we must pay major attention to the marketing system as well as the production system. USDA does exactly that, although relatively few people realize it.

USDA's work in marketing, as well as in agricultural production, conservation, research, and in a host of other fields, is founded in Federal law. Our formal cooperation with the States and their local subdivisions such as soil conservation districts, municipalities, school districts, and so on, in many activities is, in addition, based on State law.

Fortunately for you and for me—and for the legal profession generally—the Department of Agriculture, like most major enterprises, needs legal services. Our General Counsel, a native South Carolinian who received his legal education at the University of Kentucky and the University of Michigan, heads an office of some 200 lawyers, 125 of whom are in Washington and 75 in regional and branch offices throughout the country. We also have many lawyers in the Department in administrative positions, including the Secretary of Agriculture himself. The 200 lawyers in the General Counsel's Office come from about 40 States and 75 different law schools. We do not have a lawyer on our staff who graduated from your law school, but our General Counsel tells me that this is not our fault. He was here early this year talking with Dean Wade about graduates who might be interested in our work. Unfortunately, despite our efforts, we were unable to employ anyone from the graduating class last June.

When we examine some of the legal responsibilities of the Department of Agriculture, we can see why we need these lawyers. You hear a lot of talk, mostly loose talk, about how we control or "regiment" farmers. You don't hear nearly so much about how we control the food marketing industry, but that is where most of the regulating takes place. I might add also that the food industries which we regulate do not have an opportunity to vote in a referendum on whether or not they want to be regulated, a choice which the farmers have, as I shall explain later.

All in all, I believe the Department of Agriculture administers the most comprehensive group of regulatory laws of any department or agency of the Federal Government. When you think of Federal regulatory activities, you are likely to have in mind such independent agencies as the Interstate Commerce Commission, the Federal Trade Commission, and the Securities and Exchange Commission, probably because these agencies have no function except in the regulatory field. On the other hand, the Department of Agriculture is an executive department administering a wide variety of programs in addition to the regulatory programs, which are administered through separate organizational units within the Department. The first Hoover Commission, set up to study Government reorganization, in one of its reports in 1949 stated:

"The Department of Agriculture is one of the largest regulatory agencies in the Federal Government. It administers the greatest number of regulatory acts of any Federal agency—acts which vary widely in subject matter and in administrative and enforcement procedures—and has had long experience in the regulatory field."

Some of the regulatory acts administered by the USDA are as follows:

1. The Packers and Stockyards Act.
2. Agricultural Marketing Agreement Act of 1937.
3. The Agricultural Adjustment Act of 1938.
4. The Perishable Agricultural Commodities Act.
5. The Federal Seed Act.
6. The Federal Insecticide, Fungicide, and Rodenticide Act.
7. The Meat Inspection Act.
8. The Poultry Products Inspection Act.
9. The United States Grain Standards Act.
10. The Sugar Act.
11. The Commodity Exchange Act.
12. The United States Warehouse Act.
13. The Virus-Serum-Toxin Act.
14. The Anti-Hog-Cholera Serum and Hog-Cholera Virus Marketing Agreement Act.

When the Hoover Commission says these acts vary widely in subject matter, it means we regulate a large number of different industries. When the Commission says these acts vary widely in administrative and enforcement procedures, that is a considerable understatement.

Each of these laws differs from the others, and all of them differ from regulatory laws administered by other agencies. They have many variations and innovations otherwise unknown in the field of administrative law. In the

laws administered by the USDA, unique procedures are commonplace. Each of them appears to have been designed on a wonderfully pragmatic basis to get a job done.

There are two things these laws have in common: first, they are all designed to help achieve the food policy I have described; second, the Secretary of Agriculture is responsible for administering all of them—along with his other duties. I can tell you that the Secretary of Agriculture is a very busy man.

The most remarkable thing about this complex of regulatory laws, perhaps, is the fact that on the whole it works extremely well.

The Department's litigation under regulatory statutes has resulted in some of the more important cases in the field of constitutional and administrative law. All students of administrative law are familiar with the *Morgan* cases (298 U.S. 468; 304 U.S. 1; 307 U.S. 183; 313 U.S. 406) dealing with the requirements of a fair hearing, which arose under the Packers and Stockyards Act, and with *U.S.* v. *Rucizka* (329 U.S. 287) dealing with the exhaustion of administrative remedies, which arose under the Agricultural Marketing Agreement Act of 1937. *Stafford* v. *Wallace* (258 U.S. 495) and *Wickard* v. *Filburn* (317 U.S. 111) involving the Packers and Stockyards Act and the Agricultural Adjustment Act of 1938, respectively, are landmark cases on the constitutional power of Congress to regulate commerce.

I will not impose upon your time to discuss all of the regulatory laws administered by the Department or to go into great detail about any one of them. I do want, however, to discuss the more important laws to give you some idea of the nature and extent of the Department's regulatory activities.

Some of the regulatory laws, such as those dealing with the inspection of meat and poultry, are primarily concerned with the protection of consumers. Other laws, such as the Agricultural Adjustment Act of 1938, place major emphasis upon protection of farmers against low farm prices. Still others, such as the Perishable Agricultural Commodities Act, are designed mainly to protect those whose business it is to handle and distribute our food supply. Actually, the interest of all three groups—farmers, food dealers, and consumers—is involved in each of these laws. If farmers are unable to produce in sufficient quantity because of defective seed, lack of poisons to control insects and other pests, or because of ruinously low farm prices, it is perfectly obvious that the interest of the food "middleman" and the consumer will suffer.

The Department's regulatory programs cover practically all phases of the production and marketing of farm crops and the processing of food products. We regulate the sale of seed to farmers to plant their crops. The applicable law, the Federal Seed Act, requires that all seed marketed in interstate or foreign commerce be accurately labeled as to variety, percentage of germination, place of origin, etc., to insure the purchasers sound, productive seed for planting. The seed must also be free of noxious weeds, lest the harvest be one of tares rather than grain. Seeds marketed in violation of the act are subject to seizure. The Secretary also may, after hearing, issue cease-and-desist orders against those guilty of violating the act, and severe penalties, both civil and criminal, are provided.

The Department has responsibilities relating to the protection of crops, livestock, and humans against insects, rodents, fungi, weeds and other pests under the Federal Insecticide, Fungicide, and Rodenticide Act. This act provides for the regulation of the marketing of so-called economic poisons and pest control devices so that only the safe and effective poisons and devices are obtainable. An "economic poison" is any substance intended as protection against insects, fungi, weeds and other such pests, including also substances used as plant regulators, defoliants, and desiccants (drying agents). All economic poisons to be marketed in interstate or foreign commerce must be registered with the Department, but before registration is granted, they must be shown to be safe and effective and otherwise in compliance with the act, including proper labeling for the protection of the public. If the poison does not meet the requirements of the act, the Secretary may refuse to register the product, except under protest. The effect of registration under protest is that if the manufacturer proceeds to market the product and the Department establishes that it fails to meet the requirements of the act, the manufacturer is subject to severe penalties. Note that the Secretary must register the product under protest and the burden then shifts to him to show in the courts that it does not meet the requirements of the act. Meanwhile, the product can be marketed in interstate commerce. We are now trying to get this provision of the law changed.

The Department also regulates the manufacture and marketing of viruses, serums and other antibiotics for animals under the Virus-Serum-Toxin Act; regulates the manufacture, inventories, sale, and pricing of anti-hog-cholera serums, viruses and toxins under the Anti-Hog-Cholera Serum and Hog-Cholera Virus Marketing Agreement Act; and protects crops and livestock from diseases and pests under a host of plant and animal quarantine acts. These quarantine laws are administered by our Agricultural Research Service. From time to time they erect a quarantine barrier around a State and won't let any hogs, for example, be carried in or out. The authority of the Secretary in this respect has been litigated and held to be constitutional.

Turn now to laws regulating the processing and marketing of our food supply once it leaves the farm.

The Packers and Stockyards Act, enacted in 1921, is a comprehensive scheme for the economic regulation of a large industry. It was intended to go beyond the Sherman Antitrust Act, section 2 of the Clayton Act, and section 5 of the Federal Trade Commission Act, all dealing with monopolies and other unfair trade practices. It is divided into three parts: first, regulation of packers and live poultry dealers and handlers; second, regulation of stockyards, market agencies, and dealers; and third, regulation of live poultry dealers and handlers at designated markets.

The Packers and Stockyards Act is administered by the Packers and Stockyards Division of the Agricultural Marketing Service. The Packers and Stockyards Division is 1 of 17 operating divisions in the AMS, which in turn is 1 of 17 operating agencies in the USDA. Seventeen times seventeen is two hundred and eighty-nine, so you might infer that the Secretary of Agriculture can give one-two hundred eighty-ninth of his time to this activity—a little over 1 working day a year. Let's take a look at the three parts of this activity for which the Secretary is responsible with such time as he can devote to it.

1. Title II of the act makes it unlawful for any packer or live poultry dealer or handler, with respect to livestock, meats and meat products, and poultry and poultry products, to engage in certain undesirable trade practices, such as price discrimination among buyers and agreements or arrangements to apportion territory for carrying on business. If the Secretary finds that any packer or live poultry dealer or handler has violated the act, he may issue a cease-and-desist order. Such an order is subject to review by the U.S. court of appeals for the district where the respondent resides. Substantial penalties are provided for violation of these orders. These are involved and lengthy proceedings, comparable to those under the antitrust laws administered by the Federal Trade Commission and the Department of Justice.

2. Title III of the act makes it unlawful for stockyards, market agencies and livestock dealers, that is, those marketing livestock, to engage in certain designated unfair trade practices, such as fraudulent accounting in the marketing of livestock. The Secretary is authorized to undertake three kinds of administrative proceedings: first he may, if commission or stockyard rates charged are unfair or discriminatory, fix the rates to be charged; second, he may, if he finds that the prohibited practices have been engaged in, issue a cease-and-desist order and suspend registration; and third, persons who claim they have been damaged by reason of violations of certain sections of the act may file a complaint with the Department, and if it is found that they have been so damaged, the Secretary may issue an order awarding damages. If such a reparation order is not paid, the person to whom the award was made may bring an action in any Federal or State court. In that event, the trial of the issues involved proceeds as a trial de novo, except that the findings made in the reparation order are deemed to be prima facie evidence.

3. Title V of the act deals only with live poultry dealers and handlers in designated markets. The Secretary is authorized to designate cities and places in or near cities where he finds that trading in poultry is fraught with unfair, deceptive and fraudulent trade practices. Once so designated, all live poultry dealers and handlers in the area must be licensed and must comply with the provisions of law applicable to licensees. A license may be denied if it is determined that the applicant is unfit for licensing because of previous violations or a lack of financial responsibility. A license may also be suspended or revoked if the licensee has engaged in practices prohibited by the act. The Secretary also may issue cease-and-desist orders

against violators and may fix rates to be charged by licensees for handling poultry, if he finds that the rates charged are unfair, unreasonable, or discriminatory.

You will note that this statute encompasses all four of the main aspects of administrative regulations: prevention of unfair or discriminatory practices; rate fixing; reparations; and licensing. I know of no other Federal regulatory agency, other than the Interstate Commerce Commission, that is charged with exercising all four of these functions with respect to any industry. The ICC performs its functions with 11 Commissioners and a staff of about 2,400. The Packers and Stockyards Division performs its functions with 1 Director and a staff of about 180. The Director holds a GS–16 grade in the classified civil service. The ICC has 17 employees, in addition to the Commissioners, who hold a higher grade. The Director of the Packers and Stockyards Division happens to be a lawyer.

To give you some idea of the magnitude of the job—the stockyards posted under the act number 2,250; the market agencies and dealers registered number 17,000; and the packers reporting under regulation, 3,300. The annual value of meat marketed is about $18 billion.

Now, to move on.

The Perishable Agricultural Commodities Act, enacted in 1930, is intended to suppress unfair and fraudulent practices in the marketing of fresh and frozen fruits and vegetables in interstate commerce.

The act prescribes standards of conduct for sellers, buyers, and brokers in the marketing of fresh and frozen fruits and vegetables in interstate commerce. Such persons are subject to licensing and may legally engage in this business only if they hold a valid and effective license issued by the Secretary of Agriculture. The act prohibits certain unfair practices, which include: (1) Failure to deliver produce in accordance with a contract; (2) unwarranted rejection of produce; and (3) failure to pay promptly for produce. The act confers on the Secretary quasi-judicial power to hear and decide disputes between parties to a transaction subject to the act and to award monetary damages to the injured party. These proceedings are similar to the reparation proceedings under the Packers and Stockyards Act. A reparation award cannot be docketed as a money judgment, but unless it is paid or appealed to a Federal district court within a prescribed time, the license of the party against whom the award was made is automatically suspended until payment is made. This procedure provides a unique and very effective method of collection, since suspension of a license means that the person cannot legally engage in the interstate produce business either as a purchaser, seller, or broker. If a person continues to operate after his license has been suspended, the act provides for substantial civil penalties for each day of operation and also provides for the issuance of an injunction.

A party against whom a reparation award is made has the right to appeal to a Federal district court. However, he must post a bond of double the amount of the award to insure collection thereof and payment of costs and attorneys' fees in the event the decision of the Secretary is sustained. Upon any such appeal, the appellant is entitled to a trial de novo, except that the findings of fact in the reparation order constitute prima facie evidence of the facts stated therein.

The act further provides for disciplinary proceedings instituted by the Department, which are formal adjudication proceedings, for the purpose of revoking or suspending a license. These proceedings are not dependent upon the pendency of a reparation proceeding or the existence of a reparation award, but may be instituted for a variety of reasons based upon violations of the act by the licensee.

This Perishable Agricultural Commodities Act is administered by another of the 17 operating agencies of AMS, which is also headed by another GS–16 career man. Under this act, he has 22,500 licensees to look after—and the retail value of fresh fruits and vegetables marketed in 1962 was $6.5 billion. In addition, this division has some other functions to keep it busy, as it is responsible for more than 40 marketing orders for fruits and vegetables, and also conducts large-scale purchase operations to remove surplus fruits and vegetables from the market and channel them into school lunches and other food distribution programs of the Department.

It should be understood, of course, that all these administrative units in the Department obtain their legal services from the Office of the General Counsel.

Let's turn now to some regulatory acts that are based mainly on health considerations rather than economic considerations.

The Poultry Products Inspection Act and the Meat Inspection Act require that all meat, meat food products, and poultry and poultry products processed for shipment in interstate or foreign commerce be processed in official establishments subject to continuous inspection by official inspectors of the USDA as to the health of animals to be handled in the establishment, the sanitary conditions of the establishment and processing procedures used, including the wholesomeness of the products to be moved from the establishment. No meat or meat food product, or poultry or poultry product, may move in interstate or foreign commerce unless it has been officially inspected and passed for wholesomeness and bears the official inspection mark. In addition, all labeling on such products is required, under the regulations of the Department, to be approved to prevent misrepresentation. Any product found to be unwholesome or adulterated is subject to being condemned by the official inspector and disposed of so as to prevent its use for human consumption.

With respect to poultry and poultry products, the Secretary, upon application of the State or local government officials responsible for insuring the wholesomeness of such products in the area, or upon application of an appropriate local poultry industry group, may designate a major marketing area and, upon such designation, the handling of poultry and poultry products in such area, regardless of whether they move in interstate commerce or not, are subject to the requirements of the act. This is a novel approach to reconciling the exercise of State and Federal functions in a particular area.

Here again a reference to the volume of business regulated may help to indicate the importance of the function. We have over 3,600 meat inspectors each of whom, on the average, inspects over 30,000 animal carcasses annually as they move through the packing plants. We also have over 1,800 poultry inspectors, each of whom, on the average, inspects over 1 million poultry animals yearly. The big difference per man is because a steer is much bigger than a chicken. In either case, the inspector does not have much time per animal. But if he finds the animal to be unwholesome, he condemns it on the spot. The packer can obtain a prompt on-the-spot review inspection by a supervising veterinary inspector. You can't keep a freshly slaughtered steer around very long as an object of litigation.

It was the adulteration provisions of the Meat Inspection Act that gave rise to the most celebrated legal proceeding in my time at the USDA. The basic question involved was how much water a packer could inject into the hind leg of a hog and still sell the whole thing as ham. We finally worked out a solution with the packers that made it possible to put an end to the litigation, but I am afraid some bad law had been made in the meantime.

The Agricultural Marketing Agreement Act of 1937 authorizes a type of regulation which impinges upon the marketing process in a way different from that discussed up to this point. The act provides for the regulation of milk, fruits, vegetables, and some other commodities, under marketing orders.

As to milk, the act authorizes the Secretary to issue orders establishing minimum prices which handlers must pay for milk purchased from producers for a given marketing area. There is no authority to control the amount of milk which a farmer may sell or a handler may buy. Likewise, there is no authority to regulate the quality or grade of milk sold.

The act directs the Secretary to establish prices for milk which will reflect economic conditions affecting supply and demand, assure an adequate supply of fluid milk, and be in the public interest. These milk orders lend stability to the dairy industry and thereby protect the interest of both farmers and consumers.

We have 83 milk marketing orders in effect throughout the country. More than 185,000 farmers deliver milk to handlers regulated by milk orders, and the population of the areas covered by these orders is about 60 percent of the nonfarm population of the continental United States.

These milk orders can be issued only on the basis of evidence presented at a public hearing conducted in accordance with the formal rulemaking procedures prescribed by the Administrative Procedure Act. Oddly enough, the hearing examiner who conducts the hearing has nothing to do with formulating or recommending the order. The proposed order is formulated by the Secretary, with the assistance of the AMS and one of its 17 divisions—this time the Milk Order

Division of AMS. The proposal is then submitted to a vote by the farmers affected and becomes effective only if approved by two-thirds of them. As you will note, a peculiar feature of the law here is that the parties regulated; that is, the handlers of milk, are not the ones who determine whether they shall be regulated—the farmers do that.

Any handler subject to a milk order may, after the order becomes effective, contest the legality of it, or any action thereunder, by administrative proceedings, with the further right to judicial review of the decision in the administrative proceeding.

The authority of this act with respect to fruits, vegetables, and other commodities provides for the regulation of volume, grade, size, and quality of the commodity, with authority to establish surplus "pools" for the purpose of diverting surpluses from normal marketing channels. There is no authority to fix minimum prices as in the case of milk. Otherwise, the same provisions of law which apply to milk orders also apply to these orders. The provisions of the order are formulated without the advice of the examiner who conducts the hearing and are put into effect by vote of the farmers who are not regulated rather than by vote of the handlers who are. There are 45 such orders in effect, covering production areas in 27 States.

Moving on, we come to the Sugar Act, which among regulatory statutes is simply the "most" and the regulated industry loves it—in general, at least, if not in every particular.

This act provides a regulatory program designed to assure an adequate supply of sugar at prices fair to both producers and consumers. This country has never produced enough sugar to meet our requirements. We produce in the States, and in Puerto Rico and the Virgin Islands, approximately two-thirds of our total requirements. The balance is imported from foreign countries.

Since the early days of the Republic, it has been considered necessary to protect the domestic producers of sugar from foreign competition. Most of the exporting countries of the world can produce sugar cheaper than we can in the United States, primarily because of lower labor costs. Historically, the protection to the domestic sugar industry has taken the form of a tariff on imported sugar. Eventually, however, the tariff proved to be ineffective, and the Congress in 1934 passed an act establishing a quota system to control the marketings of sugar and a payment program to protect the income of growers of sugarcane and sugarbeets.

Each year in December, the Secretary of Agriculture estimates our total sugar requirements for the next calendar year. The quantity of sugar so estimated is divided among domestic areas and foreign countries in the form of quotas. The quota thus established for each area or country represents the quantity of sugar which the area or country may market in the continental United States during the calendar year.

The Secretary of Agriculture also is authorized to allot the sugar quota for any area among those who market or import sugar within the area quota. There is no authority in the act to allot or ration sugar to consumers. The purpose of the allotment procedure is to assure that the area quota will be marketed in an orderly and efficient manner and so as to provide each processor or other marketer a fair share of the area quota. The allotments are established by the Secretary under standards prescribed in the act and on the basis of evidence adduced at a public hearing. Any allottee aggrieved by the action of the Secretary may obtain judicial review of the allotment by the timely filing of a petition for review in the U.S. court of appeals.

In addition to the regulation of sugar marketings, the Sugar Act also authorizes payments to domestic growers of sugarbeets and sugarcane who: (1) Limit their marketings to the production from the farm acreage allotment; (2) pay wages to farm labor at rates which the Secretary determines to be fair and reasonable; (3) pay prices for sugarbeets and sugarcane purchased from other growers (applicable to certain processors of sugarbeets and sugarcane) at rates which the Secretary determines to be fair and reasonable; and (4) refrain from the farm employment of child labor as defined in the act.

In summary, the Secretary is authorized to establish acreage allotments for sugarbeets and sugarcane, to fix the wages the beet and cane growers pay their farm labor, to fix the price the processor pays the farmers for beets or cane, and to fix quotas for sales of sugar by processors, refiners, or importers. It is the Secretary's duty to try to regulate the price of sugar in the United States by fixing and adjusting quotas to achieve a proper balance between supply and demand. This is more of an economic exercise than a legal one, but it still has its moments.

Another of the Department's regulatory programs is somewhat comparable to the activities of the SEC; namely, the regulation of futures trading and cash transactions in many commodities on the commodity exchanges. Transactions in futures contracts subject to this regulation totaled over $10 million in fiscal 1963, and the value of such futures contracts totaled over $45 billion. In soybeans, for example, over 8 billion bushels of futures contracts were traded, and in wheat over 5 billion bushels.

For the regulated commodities, the Commodity Exchange Act prohibits dealing in future except through commodity exchanges designated by the Secretary of Agriculture as contract markets, and requires the registration of commission merchants and floor brokers who operate on these exchanges. The act imposes certain specific duties upon the exchanges and upon the registered merchants and brokers. The act also prohibits certain unfair trade practices, such as manipulation of prices and cornering the market.

The Commodity Exchange Commission, created by the act and composed of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General, is given primary responsibility over the commodity exchanges themselves. The Commission may, among other things, establish volume limits for trading in futures, suspend or revoke the designation of an exchange as a contract market, issue cease-and-desist orders against exchanges and their officers for violating the act, and review any refusal by the Secretary of Agriculture to designate an exchange as a contract market. The Secretary of Agriculture, on the other hand, has primary responsibility for the designation of the commodity exchanges as contract markets, the registration of commission merchants and floor brokers who operate on the exchanges, the suspension or revocation of registrations and denial of the privilege of trading on a contract market for violation of the act, and the establishment of periods for the delivery of commodities after cessation of trading in such commodity. The administrative proceedings under the Commodity Exchange Act involve unique subject matter and are exceedingly complicated, as you might suspect, where someone attempts to manipulate prices or to corner a commodity. As in the case of proceedings under the Packers and Stockyards Act, the proceedings under this act also present problems comparable to those presented in antitrust litigation.

The Department also has responsibilities in regard to the warehousing and transportation of agricultural commodities. Thus, under the U.S. Warehouse Act, the Department issues licenses to warehouses for the storage of commodities intended for shipment in interstate and foreign commerce. The Secretary is also required to take a number of other actions, including the establishment of reasonable rates, intended for the protection of those who store products in the warehouses and to insure the integrity of warehouse receipts issued by the licensees.

As to transportation, the Secretary is directed by law to assist in improving transportation services and facilities and in obtaining reasonable transportation rates and services by participation in proceedings before the Interstate Commerce Commission, the Maritime Commission, the Civil Aeronautics Board, or any other Federal or State regulatory body dealing with transportation rates, charges, and services. The Department participates in about 50 transportation proceedings each year before various regulatory agencies and usually in several court cases reviewing the orders of such regulatory agencies. Our responsibilities in this respect sometimes places the Department in court cases on the opposite side of the case from other Federal agencies, such as the Interstate Commerce Commission and the Department of Justice. I was somewhat startled the other day to pick up a paper and see that the Secretary of Agriculture was suing the United States. This was one of these transportation cases, and I believe we finally got the Department of Justice on our side, so I guess the Attorney General also is suing the United States.

These are but a few of the more important laws administered by the Department which regulate persons who handle, process and market our food supply as distinguished from the producers of the raw products. You will note that the Department also regulates, to some extent, those engaged in the business of furnishing farmers with supplies such as seed and insecticides, which they must have to produce this food. Although the regulatory programs of the Department deal primarily with those who handle food and farm supplies, they are not limited to the business concerns. We also have important adjustment programs which apply to farmers, and I want to comment briefly on this type of regulation. I suspect you hear more about these programs than others of which I have spoken.

The Agricultural Adjustment Act of 1938 authorizes farm acreage allotments and marketing quotas for tobacco, cotton, wheat, rice, and peanuts. Under the statutory scheme, when quotas are in effect, there is assigned to each farm a quantity of the commodity which may be marketed by producers thereof free of penalty. Marketings in excess of the farm quota are subject to a civil penalty of a specified amount per pound or bushel of the excess marketed.

The purpose of the law is to hold marketings of these commodities in line with requirements, including adequate reserves, and thereby stabilize prices and protect farm income. Unlike the controls which apply to business concerns under other laws administered by the Department, controls apply to farmers under the Agricultural Adjustment Act of 1938 only if approved by two-thirds of those voting in a referendum. Thus, farmers have a choice as to whether they will impose these controls upon themselves. Doubtless you remember that wheat growers, voting in a much-publicized referendum held last June, decided that they did not choose to be subject to marketing controls on the 1964 wheat crop.

These programs are administered at the local level through a county committee of farmers in each county elected by the farmers in the county. Thus, the allotments and quotas are established by the county committee of the county in which the farm is situated, and each farmer is notified by the committee prior to planting of the acreage allotment and marketing quota established for his farm.

In order to comply with the requirements of due process, the statute provides for judicial review of farm allotments and quotas. The Congress recognized, however, that under a program of this magnitude and complexity, it would be impractical to permit every dissatisfied farmer to appeal direct to the courts or, for that matter, to the Secretary himself. Thus, the statute provides for administrative review of allotments and quotas before judicial review is authorized. The administrative review under this law differs from other administrative proceedings to an extent worthy of some further comment.

The act provides that any farmer who is dissatisfied with his farm acreage allotment and marketing quota may have them reviewed by a local farmer review committee. This review committee is composed of three farmers from the same or nearby counties, appointed by the Secretary. Because of their familiarity with the programs, the members of review committees are generally chosen from members of county committees in the counties comprising the area of venue served by the review committee.

The provisions of the Administrative Procedure Act, regarding the use of a hearing examiner, do not apply to these review proceedings since the act itself provides specifically that the administrative review shall be before a review committee appointed under that act. The hearing before the review committee is a de novo proceeding. It is open to the public and is conducted in a fair and impartial manner and in such a way as to afford the applicant, members of the county committee which established the farm acreage allotment and marketing quota, and appropriate officials and agents of the Department of Agriculture, reasonable opportunity to give and produce evidence relevant to the allotment and quota under review. Interested parties may submit oral testimony, documentary evidence, and rebuttal evidence, and may conduct such cross-examination as may be required for a full and true disclosure of the facts. All this is done in a hearing conducted by farmers and not by lawyers.

Any farmer who is dissatisfied with the decision of the review committee may obtain judicial review of the committee's decision. However, if the Secretary of Agriculture is dissatisfied with the decision of a review committee, he has no right of appeal and is stuck with the committee's decision.

The number of proceedings before farmer review committees runs into the thousands in some years. For example, there were about 27,000 wheat allotments appealed to review committees in 1959. Since there were approximately 1,800,000 wheat allotments established that year, you can see that the percentage appealed was rather small. As you might guess, only a fraction of a percent of these cases reached the courts.

As lawyers, you can see how deeply involved we are in administrative law. I would like to say a final word about the conduct of the many hearings which are held under these laws and make some mention of the judicial officer of our Department.

In formal adjudications, such as the disciplinary proceedings referred to earlier, and formal rulemaking, such as marketing orders under the Agricultural Marketing Agreement Act of 1937, where the actions and decisions must be based upon a hearing record and are subject to sections 7 and 8 of the Administrative Procedure Act, the hearings are presided over by hearing examiners appointed

under the Administrative Procedure Act. These examiners are in the Office of Hearing Examiners attached directly to the Office of the Secretary and are divorced from all other activities of the Department.

In formal adjudications the examiner presides at the hearing, rules on all motions, and after the close of the hearing prepares a recommended decision, including recommended findings of fact, conclusions of law, and a form of order to be issued. The parties to the proceeding have an opportunity to file exceptions to the examiner's recommended decision and briefs in support thereof and be heard in oral argument thereon before the judicial officer of the Department who makes the final decision which is reviewable by the courts.

In formal rulemaking proceedings, the examiner presides at the hearing, executes a certificate as to the accuracy of the record thereof, but performs no further function with respect to the issuance of the rule. In such proceedings, a recommended decision is issued by the delegatee of the Secretary of Agriculture, usually an Assistant Secretary. Interested persons are afforded an opportunity to file exceptions and briefs, and after consideration thereof the final decision is issued by the Secretary or his delegatee and published in the Federal Register.

In most formal adjudication proceedings, the attorneys from the Office of the General Counsel perform functions comparable to those of a prosecuting attorney, handling all pleadings, the trial of the case at the hearing, and briefing and oral argument at the close of the hearing, as well as briefing on judicial review. In formal rulemaking proceedings, the Department attorney's function is that of representing the Department through the introduction of evidence and the examination of witnesses for the purpose of insuring a clear and adequate record upon which an informed judgment can be made with respect to the issuance of the proposed rule. In the reparation proceedings, which are not subject to the requirements as to use of examiners, the attorneys of the General Counsel's Office perform the functions that examiners perform in disciplinary proceedings.

The judicial officer of the Department is appointed by the Secretary of Agriculture and is a member of the Secretary's immediate staff. His responsibility is to act as the Secretary's alter ego in making final decisions in formal adjudications under most of the regulatory laws which we administer. This office was established primarily for two reasons. First, the *Morgan* cases, mentioned earlier, brought home to the Department years ago the need of relieving the Secretary of the burden of making decisions in cases of formal adjudication.

The Secretary simply did not have time to consider the record in these cases in the manner in which the Supreme Court said was necessary to meet the requirements of due process. Accordingly, the Congress passed in 1940 what was known as the Schwellenbach Act, which created the office of judicial officer. Second, the office was created also to divorce completely the decision function in adjudications from the investigative, enforcement, and policymaking activities of the Department. As you know, this separation of the decision function in cases of this sort from the investigative, enforcement, and policymaking functions is a much discussed problem today, particularly in relation to regulatory boards and commissions. There have been several bills introduced in the Congress dealing with this problem.

This has been a rather sketchy indication of the regulatory activities of the Department of Agriculture. I do not have time to discuss our accomplishments under this network of laws, but I do hope I have been able to show you the broad scope and enormous complexity of this portion of the Department's work. It is an important part of our overall job of seeing that the American public gets a plentiful supply of pure and wholesome food and that farmers who produce this food obtain a fair level of income.

Mr. BAGWELL. That is my prepared statement, Mr. Chairman.

STAFFING

I would like to call your attention, though, to a table here. I am sure you have already looked at it.

Mr. Bawcombe tells me you don't have it, but we think we have been doing quite a job in Agriculture, without increasing the number of lawyers.

Now let me just show you the figures—and this is lawyers in total, both in Washington and in the field. We have roughly about two-

thirds of our lawyers here in Washington and about a third of them in the field. Our office nearest you, Mr. Horan, is in Portland. We have some people, I am sure, in that office from your State. They are all from that area. Mr. Carlson is the head of the Portland office.

The total lawyers in the office, as of June 30 of the years shown—and just let me go backward—June 30, 1963, we had 187. The previous June 30, of 1962, the number was 193. We were down a little last year because we often fill vacancies right after law school graduation each year, in an effort to pick up good young lawyers as best we can in competition with law firms and businesses that are after them.

Last June 30 we had several applicants that had not passed the bar and we were waiting to hear from the bar exams before we gave them jobs. So we had 187 on June 30 of last year. On June 30, 1962, 193; June 30, 1961, 192; June 30, 1960, 192; June 30, 1959, 193; June 30, 1958, 199; and June 30, 1957, 194. But comparing our employment with the growth of the Department in general, you see that we have maintained our staff pretty much at a uniform level for the last several years. We are kind of proud of that because we feel we are doing more work and better work, we hope, each year—trying to do a better job for the farmers and others who are interested in the Department of Agriculture.

Mr. NATCHER. Mr. Bagwell, at this point, could you give us the rate of your turnover for the past several years, percentagewise?

Mr. BAWCOMBE. Would you like me to list it in the reverse order from 1963?

Mr. NATCHER. That will be fine.

Mr. BAWCOMBE. 1963, attorney turnover was 6 percent; nonprofessional, 23 percent; 1962, 7 percent for attorneys, 23 percent for nonprofessional; 1961, it was 11 percent for attorneys and 23 percent for nonprofessional.

Mr. MICHEL. That's pretty low.

Mr. BAGWELL. The turnover among the lawyers is not too great, but you see the stenographers and the clerical help are pretty high.

MARKETING ORDERS AND AGREEMENTS

Mr. NATCHER. At this point, Mr. Bagwell, we would like for you to trace your activities insofar as that milk marketing order procedure is concerned. Give the committee some idea as to your activities.

Mr. BAGWELL. Mr. Bucy, we would like to have you do that.

Mr. BUCY. In milk marketing order activities, there are really three phases of legal work. First of all, we have the legal work in connection with promulgation of these orders. Under that act, it is an unusual rulemaking procedure in that we are required to have all of the provisions of an order based upon the record of a public hearing.

Our attorneys pass on the proposals, the notice of proposal that goes in the Federal Register. Then they participate in the public hearing by questioning witnesses to assure that the Secretary will have a clear, factual record upon which to make his judgment as to the incorporating of the provisions suggested in the order.

After the hearing is over, our attorneys then work with the technical people in analyzing the record of the hearing and drafting the recommended decision which is issued by the Assistant Secretary. These records frequently run into thousands of pages of testimony.

The interested members of the industry and public are then given an opportunity to file exceptions to this recommended decision. After those exceptions are filed, they are analyzed in the light of the record and a final decision is then prepared and issued by the Secretary.

Each of these decisions is subject to the Administrative Procedures Act and has to set forth the reasons and basis for the Department's action with respect to each issue of fact and law involved in the rule-making proceeding. Once the final decision is issued, the act then provides that each order before it may become effective, must be submitted to the handlers in the form of a marketing agreement for their signature, if they want to enter into the marketing agreement.

In the milk area, we have no marketing agreements. In the fruit and vegetable area, we do have marketing agreements.

Mr. HORAN. In the milk?

Mr. BUCY. In the milk industry——

Mr. HORAN. You have marketing orders?

Mr. BUCY. Marketing orders, but not marketing agreements.

Mr. HORAN. Distinguish between the two.

Mr. BUCY. The marketing agreement is only binding upon the handlers who sign the agreement. It is not enforceable against other members of the industry who have not joined in the agreement.

In the milk area, you couldn't get very far with that type of thing, and I think the reason why you don't get into agreements is that you are fixing minimum prices and if part of an industry signs up and the rest of the industry doesn't sign up it would be difficult to operate a regulatory program under such conditions.

Then the act provides that if less than 50 percent of the handlers sign up, the Secretary, if he finds that it is necessary in order to effectuate the purposes of the act to issue a marketing order, may then issue the order if it is approved by two-thirds of the producers whose milk or vegetable or fruit commodity will be regulated under the order. A referendum is held after we prepare the formal notice of referendum and the order.

After the referendum is conducted and two-thirds approve it, the order becomes effective. After the order becomes operative we act as legal advisers to the order administrators.

In the case of milk the order is administered by a milk marketing administrator. Fruit and vegetable orders are administered by an industry control committee. The committees are composed of handlers and processors, the majority being from the producers. We act as legal advisers to these agencies in administering the order.

Under this act, there is also a provision that a handler, who is affected by the order, or by any action under the order, may petition the Secretary for a review of that particular provision or action. Our attorneys defend the Department's position in an administrative proceeding where the legality of an issue is in question.

Those proceedings then go to the judicial officer who decides them. He is the alter ego of the Secretary for adversary proceeding decisions. Our attorneys brief and argue those cases and act as the trial attorney. The decision of the judicial officer in these 15(a) proceedings is subject to review in a 15(b) proceeding before the district court. Our attorneys brief the case for the district court and in a large percentage of the cases, are called upon to argue the case before

that court, because of the technical nature of the programs and the fact that the U.S. attorneys can't get primed with the background of the program where they have just an occasional matter relating to these programs in their particular districts.

The attorneys in our office also analyze audits and investigation reports to determine whether violations of orders have occurred. In cases of violations our attorneys prepare the pleading to initiate civil and criminal enforcement actions and also motions and briefs in connection with civil enforcement actions.

I hope that gives a general picture of our activities in connection with marketing orders. But if there are any further questions, we would be glad to answer them.

Mr. HORAN. Mr. Chairman, could I ask a question?

Mr. WHITTEN. Certainly.

Mr. HORAN. Could I have Mr. Bucy enlarge on what you hope to achieve; one, by marketing agreements, and, two, what you hope to achieve by marketing orders?

Mr. BUCY. The objective, Mr. Horan, is the same for both marketing agreements and marketing orders. The congressional policy objective is to create orderly marketing and through that to return to the producers of the commodity concerned parity prices.

Mr. HORAN. That is especially true of the marketing agreement?

Mr. BUCY. That is the congressional and the statutory objective of both agreements and orders.

Incidentally, we have no agreements independently of orders. There are no marketing agreement programs without orders in existence and haven't been for the last 20 years that I have been familiar with the program. It would be difficult to make one work unless the entire industry is signed up. The only people that are regulated under a marketing agreement are the handlers who have signed the agreement. The ones that do not sign can undercut those that do, and thus defeat the purposes of the program.

Marketing orders are mandatory on all handlers. Their objective is to return parity price to the producers.

Mr. HORAN. Well, I, of course, am familiar with both of them.

Mr. BUCY. We have some out in your area, Mr. Horan, particularly in fruits and vegetables.

Mr. HORAN. These agreements usually involve a national market.

Mr. BUCY. We have never had one—Well, they involve a commodity that is marketed nationally, but they are production area agreements. They apply to commodity produced in a particular area.

Mr. HORAN. That is right, and they are important.

We had occasion to need something that approaches marketing agreement last fall in my area, first detected by the State director of Farmers Home Administration. He noticed a huge apple crop out in my area and he also noticed the difficulty in getting it under cover and he also noticed a tendency to sacrifice and to rush fruit that had been produced in drought conditions in the East, and he talked to me and I agreed with him. The need for some sort of a program that would have induced orderly marketing of fruit as it became apparent that it was approaching what you might call distress conditions was apparent. But it didn't come to pass.

Now that would be a sort of informal marketing agreement. And we tried to encourage setting up of an informal committee to achieve

that in our area. Finally we did, but after the horse had been stolen.

In a marketing order, anything affecting the milkshed, that is a much more intimate matter. It is a very localized issue.

Mr. BUCY. Very complicated and tied into the local area.

Now in marketing agreements we have broader authority than we do for marketing orders. There is authority to have marketing agreements in all agricultural commodities whereas marketing orders are limited to specified commodities which do include most fruits and vegetables.

Mr. HORAN. I appreciate your comment.

Mr. Chairman, the reason I raise this at this time, I am not trying to prolong the hearings, but these programs can be good and they can raise holy Ned all over the place—and you know that. The need to have attorneys around the premises is pretty apparent at the time.

Mr. BUCY. I think in that connection the record might show that if producers are dissatisfied with an order after it is in effect, the order can be eliminated if 50 percent of the producers representing 50 percent of the production vote that they want the order knocked out.

GENERAL REGULATORY FUNCTIONS OF USDA

Mr. BAGWELL. You hear a lot about the Department of Agriculture regimenting or controlling farmers——

Mr. WHITTEN. I hadn't heard that.

Mr. BAGWELL It gets around, especially last year during the wheat referendum.

Mr. HORAN. I didn't think there was any question about that.

Mr. BAGWELL. Mr. Murphy's talk which I spoke about a moment ago, if you read it through, will show how many people we regulate that are not in the farming business at all, people who handle seed, insecticides, the packers, the milk handlers, and so forth.

Mr. BUCY. All the insecticides and fungicides.

Mr. BAGWELL. Yes, it is pretty bad talk at times, Mr. Horan. Actually the only controls we have on farmers are under the agricultural Adjustment Act of 1938 on tobacco, cotton, and other basic commodities.

Mr. WHITTEN. Without being facetious about this matter, we do hear all the charges and countercharges about agriculture. But other than those things which are necessary for the protection of public health, I don't know of any farm program that is not based upon the acquiescence or affirmative action by the farmers themselves.

Mr. BAGWELL. That is right.

Mr. WHITTEN. And you have to have some way where the majority—in most cases far more than a majority—can in some way help themselves within the industry. So most all of the laws are based upon that fact.

I feel that no government has the right to tell a man what he must do with his own property. But the Government is entitled to tell him how far it is willing to go in helping to deal with the problem for an industry. We find that in every field that you look. But we realize that in our political world these charges and countercharges will always continue.

There have been a few times under all administrations, since I have been here, when I have felt that perhaps there was drive to get folks in

the Department and those associated with it to put over the views of the Secretary. Under both administrations I thought they went too far. I guess that is just the human equation. We have pointed out in prior debates on the floor that there are basic statutes which prohibit employees doing certain things. I don't presume we will ever resolve this matter.

LEGAL SERVICES FOR RURAL ELECTRIFICATION PROGRAMS

Now in connection with an application to the REA for power generation and transmission facilities, what part would your office as General Counsel play, if any? Do you have any automatic responsibility in connection with it or do you just act on the request of the Administrator? Would you describe what is involved in particular instances of that kind?

Mr. BAGWELL. Mr. Koebel, I believe, should comment on this question.

Mr. KOEBEL. Yes, Mr. Chairman. In practice our attorneys are usually brought in at a very early stage in the preparation of a loan application for generation or transmission facilities particularly due to the complexity of power-pooling arrangements, the possibility of interconnections with other power suppliers, and changes in corporate structures. Loan proposals are getting more complicated all the time. We are usually working along with either the power supply division or the area personnel in REA in analyzing the loan prospects and consulting also with the borrower and its counsel.

We continuously examine the proposal in its various stages for compliance with the Rural Electrification Act and applicable State law. As the committee knows, the Administrator has issued his new bulletin describing the power supply survey that must precede the consideration of any power supply loan over $2 million, and at least goes concomitantly with any other transmission or generation loan application under $2 million. This will be reflected in our preliminary work. Once the loan application and docket are ready for formal action, the docket is referred to our Office for preparation of the actual legal documents.

There has been built up a sort of REA bar, as you know. We couldn't possibly operate this program without the aid and direct work of the borrowers' counsel. They do all of the on-the-ground work at the local level within the State in getting State regulatory commission and State corporation legal clearance and approvals, and performing other necessary legal services to perfect the borrowers' applications.

Then finally, our staff prepares the loan papers and approves the loan as to any legal issues or corrects any defects that are involved.

Mr. WHITTEN. Are REA cooperatives organized under the laws of the respective States?

Mr. KOEBEL. This is correct.

Mr. WHITTEN. They are local or State entities. This is not commonly understood by many of my associates who do not work with the problem. So the local counsel, as you have expressed it, does all of the work incident to meeting the requirements of the State and things of that sort. You in turn, I presume, review that the minute it comes to you or is called to your attention, to see that all of the

requirements that may apply as a result of State law or the articles of incorporation have been carried out; is that correct?

Mr. KOEBEL. This is exactly right, Mr. Chairman. Our office of course has its basic responsibility which is to advise the Administrator on requirements of our statutes which do have limitations. We also have to be familiar enough with State law to determine the propriety of what is done with the aid of local counsel upon whom we do rely heavily.

Mr. WHITTEN. While working on the recent bill under which REA's and the Department of Agriculture are now operating, this committee had some difference of opinion with our associates on the other side as to two requirements that were made in connection with how the Administrator should handle these applications, particularly with regard to the Comptroller General and reporting to the Congress. We are each entitled to our views.

Our objection was that we had no adequate staff of experts to really deal with this thing intelligently, project by project, for one thing, and then when the General Accounting Office was concerned, it was our thought that this could lead only to some further problems. Time will tell and again this is no reflection on those who may differ with us.

Now, in connection with these changes, you deal as closely with whether the regulations have been carried out as well as the law, do you not?

Mr. KOEBEL. I think I can say, "Yes," to that, Mr. Chairman. We worked with the Administrator in the preparation of the bulletin. While of course it is essentially policy, we worked with him seeing to it that it did comply, and as the Chairman points out, there were some differences in the three reports which the Administrator has recognized. We tried to reconcile them.

Mr. WHITTEN. As General Counsel, you are not in the policymaking field to the point of advising approval or disapproval from the policy standpoint, but only as to whether the application fits the requirements of law as well as the requirements of regulations.

Mr. KOEBEL. We hope that is so, Mr. Chairman. We try to keep out of the strictly policy field. Of course sometimes the area is a little blurred, but we try to keep strictly to our side of the line.

REGULATORY PROCEEDINGS UNDER PACKERS AND STOCKYARDS ACT

Mr. WHITTEN. There is one other area that I think is vital. We have had some prior statements in our reports concerning the Packers and Stockyards Act. We have felt several times, based upon complaints that we have received, that this Packers and Stockyards Act perhaps needed to have a special division or special setup in view of the tremendous amount of authority and responsibility under that act. Now I understand that they do have a special counsel with a special section to deal with the Packers and Stockyards Act. What are the facts so far as the legal staff for carrying that act out? Are they under you and in turn have that special assignment?

Mr. BAGWELL. That is handled in one of the divisions under Mr. Bucy. Carl Bullock is the division director, and there are four or five lawyers assigned to packers and stockyards work; is that right?

Mr. BUCY. And others shift back and forth from other regulatory programs.

Mr. BAGWELL. We try to specialize as much as possible in the sense that we have divisions that handle particular programs, because we think that will make for the greatest efficiency; rather than having a lot of roving centers, as they say in football, we try to concentrate. Although once in a while when we can do it with efficiency and we need someone in another division, we do make some temporary transfers. Packers and stockyards work is handled down in one of the divisions by attorneys that handle it regularly and only in that way are we able to keep up with it. That is an area of our work that has expanded tremendously in the last 4 or 5 years.

LEGAL ASSISTANCE ON INVESTIGATIONS

Mr. WHITTEN. This committee through the years, Mr. Bagwell, has from time to time had investigations by the staff of the Appropriations Committee. This has resulted in a lot of shortages being discovered in grain storage back in the years 1951 and 1952. This year we have had our staff investigating the disappearance of this huge amount of wheat that was supposed to go to Austria. We have one going on with regard to what part the Federal Government may be playing in promoting production of beef in a number of foreign countries, where in turn the beef comes back to this country as imports.

In connection with a number of these investigations there have been prosecutions and convictions. In the latest investigation on this Austrian wheat, we were asked to hold up our report. Later we were asked not to insist on further information from the Department because the Department, while they had authority to give us the information, would have to under the statute release it to the public as well. The basis on which they asked us to hold up was that we might in some cases be affecting the ability of the Department of Justice to prosecute cases that are connected with it.

Now what responsibility does the Department's legal counsel have in these matters of malfeasance, investigations, indictments, trials, or things of that sort?

Mr. BAGWELL. I think the particular program or statute that you have in mind is the Commodity Exchange Act. Isn't that right, Mr. Bucy?

Mr. BUCY. Yes.

Mr. BAGWELL. Our responsibility there, of course, is to take these investigation reports, to examine them thoroughly for possible violations of law, to work the cases up and submit them to the Department of Justice for action.

Mr. WHITTEN. Do your attorneys ever participate in preparation for trial even though the actual trial is handled by the Department of Justice?

Mr. BAGWELL. Our field attorneys participate with the U.S. attorney in the handling of these cases in the trial stage.

ADMINISTRATIVE PROCEEDINGS

Mr. BUCY. John, we also have administrative proceedings.

Mr. BAGWELL. You might comment on that.

Mr. BUCY. We also have administrative proceedings under that act where if someone has violated the act, the Secretary can issue an order which will deny them trading privileges on commodity ex-

changes and also if they are registered as a broker or as a trader on the floor, we can revoke or suspend their registration if they are found to have violated, after a formal administrative proceeding. And our attorneys in those cases are the prosecutors.

Mr. WHITTEN. For those who might wonder why we have given you such a good chance to prove you have earned your salt, the reason is that at least three on the committee were lawyers.

Mr. Horan?

FOREST SERVICE APPEALS PROCEDURE

Mr. HORAN. You have indicated in page 4 of your statement, in connection with the entire problem of land resources, we have for the Forest Service been extensively engaged particularly with increased emphasis in problems on road development, timber sales management, and rights of appeal.

It is my understanding, and I say this for the record, that Secretary Freeman has taken an active interest in this particular field and I commend him for it and I think there is need for it.

Would you enlarge on that? Now we have a lot of problems growing out of this.

We know in the Forest service allowances are made for the stumpage pricing for the building of roads. It enters into it. And we know that timber sales are made on an estimate of the allowable footage to be cut in that area. And cruising is supposed to reflect the allowable board feet to be cut and there are many things connected with the matter of land resources that are involved here, the matter of grazing and other matters that may or may not affect the users of the natural resources.

It may even affect the broad public in the use of recreational facilities and so forth in the matters and we do know that through the years there has been difficulty in the field of rights of appeal.

Now, you started off the record briefly to enlarge upon that when you read your statement.

Mr. BAGWELL. Yes, sir.

We have, Mr. Horan, for the last several months now, been engaged in an undertaking to develop appeals procedure for people involved in disputes with the Forest Service on timber purchases, the use of forest lands for grazing or for recreational purposes, and things of that sort.

These people have long contended that while they, under the procedure that now obtains, have a right to appeal to the Forest Service, the Forest Service tends to affirm their own decisions and they can't get any satisfaction.

So the Secretary had us working, beginning last fall, on a new appeals procedure. We have tried to develop procedures starting with the regional forester and then coming on up to the Chief of the Forest Service. At that level, we are proposing that the Secretary set up a Board of Appeals to take over and decide finally questions of law and fact relating to contract disputes, such as timber purchase contracts that you spoke about.

Also, this Appeals Board would pass on appeals that involve both policy and factual questions, but in that area, the Board's function would be to make recommendations to the Chief of the Forest Service and finally to the Secretary, if the appeal goes up to him.

And this procedure has been worked out with the lumber industry, the lumber manufacturers association, and the Secretary has met with them several times. We are just about ready to issue those regulations. I think they will be published within a matter of 2 or 3 weeks at the most.

I am not sure they go as far as the users of the forest lands would like, but I am sure they will find them to be far more satisfactory than the procedure that we have had.

Mr. HORAN. What you are doing now, though, results in those who appeal—requires them to come to Washington?

Mr. KOEBEL. Presently the appeals are available in the field. They are usually heard before an examiner at some convenient location in the field as near as possible to the appellant's residence. The record of the hearing goes to the Secretary or the Chief as the case requires, for decision. The field location for hearings will continue under the new rules.

Mr. HORAN. If I appealed a timber purchase that involved six figures, or even less, five figures, it might be worth my while to come to Washington, but if I had a longtime lease on a piece of land on a lake that they wanted to set aside for public use and I was served notice to vacate the property; it was going to become a public domain and that my lease was going to be voided in some way—I don't know the details—but some of this is going on, it would hardly be worth my while to come to Washington on this.

I would just crawl in my hole and hate the Forest Service the rest of my life, I imagine, or distrust the Government.

Mr. WHITTEN. I am glad to hear, Mr. Koebel, that you are having this available in the field.

PRODUCER INTEREST IN MARKETING ORDERS

This question should have been asked when the Marketing Service was before us, but I didn't ask it then. You indicate that the number of marketing agreements and orders is very much on the increase.

Mr. BUCY. Yes, sir.

Mr. HORAN. To what do you attribute that, judging from the nature of the briefs you have been preparing or listening to?

Mr. BUCY. It is attributable to the fact that the orders have solved this orderly marketing problem in various areas. The producers have found that they are in a better position, that their position is protected better. For instance in the fruit and vegetable area, their requirements as to the quality that is to be marketed prevents some inferior, low-value stuff being dumped on the market thus breaking the market to the detriment of all of the other producers.

In the milk area, the producers don't have to compete with each other for the class 1 use, because they all get a uniform return so that the handler is not in a position to discriminate as between producers, and put one producer's milk in a class 1 use and the other producer's in manufactured.

Mr. HORAN. I am very familiar with all of that.

Mr. BUCY. And I think the producers seem to be getting more and more interested.

Mr. HORAN. That is because of the fact that they are economically the low man on the totem pole.

Mr. BUCY. Yes, sir.

Mr. HORAN. In the society of the United States and they are turning to marketing agreements and orders to improve their status.

Mr. BUCY. Bargaining power has improved.

Mr. HORAN. Then it does boil down to this: that the new interest in marketing agreements and orders is the desire of the producers in an orderly way to improve their economic place in the sun?

Mr. BUCY. I think that is correct.

Mr. HORAN. That is all, Mr. Chairman.

Mr. WHITTEN. Mr. Michel.

Mr. MICHEL. No questions.

Mr. ADDABBO. Mr. Chairman, may I ask one question?

Mr. WHITTEN. Mr. Addabbo.

CONTRACT RESPONSIBILITY IN MARKETING

Mr. ADDABBO. Last year, there came up the question relative to marketing of orange juice in Florida and a question arose as to when the commodity became the property of the Government and when it didn't.

Has anything been done to clarify that particular situation in the contracts?

Mr. BAGWELL. We haven't been back in the business of buying orange juice since last December a year ago.

I believe that is right?

Mr. SHULMAN. Yes.

Mr. BAGWELL. I am sure that when we get around to doing that again, if ever, we will make sure that the point is covered in our contract.

Mr. ADDABBO. I mentioned oranges because that was the question at that time. The same question might come up in reference to other commodities, so is that particular loophole being looked into in your office as to when it becomes the property of the Government?

Mr. BAGWELL. It is indeed.

Mr. ADDABBO. No further questions.

Mr. WHITTEN. Thank you, Mr. Bagwell. We appreciate the appearance of you and your associates here.

WEDNESDAY, MARCH 18, 1964.

FARM CREDIT ADMINISTRATION

WITNESSES

ROBERT B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION
PAUL O. RITTER, GENERAL COUNSEL, FARM CREDIT ADMINISTRATION
JAMES E. PITTS, JR., BUDGET OFFICER, FARM CREDIT ADMINISTRATION

Mr. WHITTEN. Gentlemen, the committee will come to order.

We have with us today the Farm Credit Administration, Governor Tootell and associates. At this point we would like pages 1 to 20 of the justification included in the record.

(The material referred to follows:)

FARM CREDIT ADMINISTRATION

PURPOSE STATEMENT

The Administration supervises, examines, and provides facilities and services to a coordinated system of Farm Credit banks and associations making loans to farmers and their cooperatives. A fundamental principle of supervision is the encouragement and development of agricultural cooperative agencies, with complete farmer ownership the ultimate objective of the agencies supervised. Services and facilities furnished by the Administration facilitate the operations of the several agencies and their progress toward farmer ownership. Typical services are: Custody of collateral for bonds and debentures, assistance in financing and investments, credit analysis, development of land appraisal standards and policies, preparation of reports and budgets, and preparation and distribution of information on farm credit. All expenses of these activities are paid by assessments collected from the banks and associations of the Farm Credit system.

Since December 4, 1953, the Administration has been an independent agency under the direction of a Federal Farm Credit Board (12 U.S.C. 636b). The Administration, originally created by Executive Order No. 6084 on May 27, 1933, was transferred to the Department of Agriculture on July 1, 1939, by Reorganization Plan No. 1.

On December 31, 1963, the Administration had 219 full-time employees of whom 100 were in Washington. The 119 field employees are farm loan registrars, reviewing appraisers, and Farm Credit examiners.

(a) *Administrative expenses*

(In thousands)

[Authorization for the obligation of assessments collected from Farm Credit banks and associations]

Limitation, 1964, and base for 1965	$2,785
Budget estimate, 1965	2,876
Change	+91

The increase of $91,000 for 1965 over 1964 is necessary to meet the additional increased pay costs (Public Law 87–793) and lump-sum leave payments, which, due to the small number of employees, cannot be absorbed by delay in filling vacancies.

Program

[In thousands]

Program	1963	1964 estimated	Change	1965 estimated
Supervision and examination of farm credit banks and associations	$2,571	$2,785	+$91	$2,876
Unobligated balance	61			
Limitation or estimate	2,632	2,785	+91	2,876

STATUS OF PROGRAM

SUPERVISION AND EXAMINATION OF FARM CREDIT BANKS AND ASSOCIATIONS

The Farm Credit Administration is a supervisory agency established to provide the banks and associations of the farm credit system with centralized and coordinated supervision and examination, and to furnish facilities and services deemed essential to the operation of the system and its progress toward complete farmer ownership.

The Farm Credit Act of 1953 reestablished the Farm Credit Administration as an independent agency. It created a Federal Farm Credit Board responsible for the direction, supervision, and control of the Administration and its operations (12 U.S.C. 636b). The Board consists of 13 members. Twelve are appointed by the President with the advice and consent of the Senate. The 13th is designated by the Secretary of Agriculture. In making appointments to the Board, the President considers nominations made by Federal land bank associations, production credit associations, and borrowing farmer cooperatives in each

of the 12 farm credit districts. The act reaffirmed the concept of progressively greater borrower participation in the management, control, and ultimate ownership of the credit agencies supervised by Farm Credit Administration. Progress toward this objective since December 4, 1953, the effective date of the act, and other developments are outlined in the section headed "The Farm Credit System."

Significance of the program.—Effective Farm Credit Administration supervision and examination have contributed to the establishment of the farm credit system. The system has developed sound administrative management and the facilities and services made available by the Administration have enabled it to serve farmers effectively. The steady increase in the number of farmers participating in cooperative credit indicates their confidence in the farm credit system, and demonstrates that with effective leadership such a credit system is desirable and feasible. Objectives of the farm credit system which can be attained best through coordinated effort are to: assure farmers a permanent source of credit by strengthening the farm credit banks and associations; assure dependable sources of loan funds, which are of first importance to any credit system, by maintaining the confidence of investors in farm credit bank securities through adherence to sound credit principles and maintenance of strong financial structures; and accomplish the retirement of Government capital without impairing the system's ability to provide for the sound credit needs of agriculture.

AGRICULTURAL CREDIT TRENDS

Farmers' use of credit obtained from the farm credit banks and associations follows rather closely trends in agriculture. As a result, credit is influenced by fluctuations in farm production, farmers' incomes, and farm expenses incurred for such items as machinery and equipment, supplies, farm labor, and taxes. Attitudes of farmers toward the use of credit are related to changes in their financial position and to unpredictable developments, such as floods and droughts. Amounts of credit used by farmers' marketing and purchasing cooperatives are affected by the volume of farm output and by changes in the kinds of services needed by farmers in operating their farms.

Farm income maintained

Gross farm income from farming operations in 1963 reached a new peak which was slightly higher than the record set in 1962. However, because of increased production expenses, net income was somewhat less than in both 1962 and 1961. Gross income received by farmers in the United States totaled $41 billion in 1963 as compared with $40.8 billion in 1962, and $39.6 billion in 1961. Because commodity prices received have been somewhat lower, this increase in gross income resulted mainly from increased marketings of farm products.

Farmers' production expenses reached a new high of $28.8 billion as compared with $28.2 billion in 1962, and $27.1 billion in 1961. Since the rise in production expenses was considerably greater than the increase in gross farm income, farmers' net income in 1963 dropped to $12.2 billion as compared with $12.6 billion in 1962 and $12.5 billion in 1961. However, as the number of farms continued to decline, net income per farm reached a new peak of $3,464 in 1963 compared with $3,414 in 1962.

Prices received and paid by farmers and farm income, United States

Calendar year	Indexes (1910–14=100)			Farm income [1] (in billions of dollars)		
	Farm product prices received	Prices paid by farmers	Parity ratio	Gross income	Production expenses	Net income
1940	100	124	81	11.0	6.7	4.3
1950	258	256	101	32.5	19.3	13.2
1955	232	276	84	33.3	21.8	11.5
1956	230	278	83	34.6	22.6	12.0
1957	235	286	82	34.4	23.4	11.0
1958	250	294	85	37.9	25.3	12.6
1959	240	297	81	37.5	26.2	11.3
1960	238	299	80	37.9	26.2	11.7
1961	240	302	80	39.6	27.1	12.5
1962	243	306	79	40.8	28.2	12.6
1963 [2]	242	311	78	41.0	28.8	12.2

[1] Includes Government payments. Excludes changes in farm inventories.
[2] Preliminary.

While most farmers had favorable incomes in 1963, there were some regional differences. Cash crop farmers in the Corn Belt, the Plains States, and the South, for the most part, had a favorable year. Incomes from feed crops and wheat were generally good except for some areas of Nebraska, Colorado, and Kansas where yields were lower. Most farmers in the Mountain States and on the Pacific coast had a satisfactory year in 1963. Cotton producers' incomes were favorable.

However, some areas in the Lake States, the Northeast, the Appalachian area, and the South were affected by drought and other adverse weather. Farmers raising cattle and hogs experienced some reverses as a result of lower prices and increased feed costs.

Average levels of commodity prices received by farmers were down only slightly from 243 in 1962 to 242 in 1963.

The upward trend in the level of prices paid by farmers continued during the year. The U.S. index of prices paid by farmers averaged 311 in 1963 up from 306 in 1962 and 302 in 1961. Prices paid for items such as tractors and other farm machinery, were up from 5 to 10 percent. Feed and fertilizer expenditures were noticeably higher than in 1962. Tax payments were about 25 percent higher.

Farmers' financial position improves

The financial position of farmers continued to improve during 1963. Farmers' total assets increased 4.5 percent in the year, chiefly as a result of rising land prices. While part of this increase was offset by a 9.3 percent larger farm real estate and nonreal estate debt, farmers' net worth on January 1, 1964, was estimated to be 3.7 percent more than a year earlier.

Farmers' assets totaled $226 billion at the end of 1963, a record level. This compares with $216 billion a year earlier and $200 billion 3 years ago.

Farm assets and debts, United States

[In billions of dollars]

Item	As of December 31					
	1940	1950	1955	1960	1962	1963
Farm assets:						
Real estate	34.4	86.8	102.4	131.8	143.6	152.0
Non-real-estate [1]	15.9	47.7	45.9	50.6	54.5	55.4
Financial	4.8	16.1	18.0	17.6	18.4	18.8
Total	55.1	150.6	166.3	200.0	216.5	226.2
Farm debts:						
Real estate	6.5	6.1	9.1	13.1	15.2	16.7
Non-real-estate [2]	3.3	6.2	7.9	11.0	12.7	13.8
Total	9.8	12.3	17.0	24.1	27.9	30.5
Owed on CCC loans	.6	.8	1.9	1.4	2.1	2.3
Farmers' net worth	44.7	137.5	147.4	174.5	186.5	193.4

[1] Value of livestock, farm equipment, crops on hand, and household furnishings.
[2] Excludes CCC price support loans.

Farmer's total debts increased from $24.1 billion at the end of 1960 and $27.9 billion at the end of 1962 to $30.5 billion in 1963. While farmers' debts have been rising, the value of farm assets has been increasing at a faster rate. This has resulted in farmers' net worth rising from $175 billion at the end of 1960 to $187 billion in 1962 and $193 billion at the end of 1963. This upward trend in net worth has been evident for several years. For example, the net worth of farmers totaled $147 billion in 1955 and only $137 billion in 1950.

Trends toward more commercialization and specialization in agriculture, the larger size of farms, and technological advances make it necessary for farmers to use more credit. The amount of short-, intermediate-, and long-term debt has increased. Short- and intermediate-term non-real-estate debts of farmers increased from $11 billion at the end of 1960 to $12.7 billion at December 31, 1962, and $13.8 billion at the end of 1963.

Farmers need increased amounts of operating capital in order to purchase the equipment and supplies required in modern agriculture. Credit is being used in larger amounts to finance the increased quantity of all nonfarm items purchased.

Longer term mortgage debts are being incurred by farmers in increased amounts to enlarge and improve their farming operations. Many use mortgage debt to refinance and consolidate other outstanding debts.

Loans made to agriculture by the farm credit banks and associations

[In millions of dollars]

Lending banks and associations	Fiscal year ending June 30					
	1940	1950	1955	1960	1962	1963
Federal land banks	56	199	403	517	636	682
Production credit associations	328	968	1,328	2,568	3,021	3,422
Banks for cooperatives	93	373	500	672	860	946
Federal intermediate credit banks	472	1,520	1,920	3,304	3,881	4,406
Total loans	949	3,060	4,151	7,061	8,398	9,456
Deduct Federal intermediate credit banks credit to other farm credit banks and associations	382	1,351	1,748	3,072	3,634	4,132
Net total loans	567	1,709	2,403	3,989	4,764	5,324

Loans made by the farm credit banks

The amount of loans made by the farm credit banks and associations continued in an upward trend and reached a new peak during the past year. A net total of $5.3 billion in credit extended to agriculture in the year ended June 30, 1963, compares with $4.8 billion for fiscal 1962 and $4 billion in fiscal 1960. The 12 Federal land banks in the year ended June 30, 1963, made loans amounting to $682 million as compared with $636 million in fiscal 1962 and $517 million in fiscal 1960. Production credit associations made $3.4 billion in short- and intermediate-term loans to farmers in the 1963 fiscal year compared with $3 billion in fiscal 1962. The banks for cooperatives made $946 million in loans to farmers' marketing, purchasing, and business service cooperatives during the year ended June 30, 1963, about $86 million more than in the 1962 fiscal year.

Due to the increased use of credit by farmers and their cooperatives, the total amount of loans outstanding among all farm credit banks and associations reached a new peak. Outstandings amounted to $6.3 billion on June 30, 1963, as compared with $5.8 billion a year earlier. The amount outstanding was at peak levels for each group of banks.

The farm credit banks and associations provide slightly less than one-fifth of the total amount of credit used by individual farmers. The proportion of credit used by farmers which is furnished by the farm credit system increased only slightly from 17.8 percent at the beginning of 1962 to 17.9 percent on January 1, 1963.

Loans outstanding to agriculture held by the farm credit banks and associations

[In millions of dollars]

Lending banks and associations	As of June 30					
	1940	1950	1955	1960	1962	1963
Federal land banks	1,880	931	1,408	2,487	2,969	3,198
Production credit associations	200	531	804	1,670	1,994	2,300
Banks for cooperatives	63	245	317	551	692	701
Federal intermediate credit banks	237	591	855	1,698	1,998	2,293
Total loans	2,380	2,298	3,384	6,406	7,653	8,492
Deduct Federal intermediate credit banks credit to other farm credit banks and associations	196	532	779	1,594	1,883	2,166
Net total loans	2,184	1,766	2,605	4,812	5,770	6,326

Increases in the amounts of credit advanced to farmers by the farm credit system in recent years have resulted to a large extent from an expansion in average amounts of credit used by individual farmers. Farmers have been expanding

the size of their operations in an effort to increase incomes and offset higher costs. The size of farm units is being enlarged through purchases of additional land and the consolidation of undersized farms. Considerable new equipment is being acquired by farmers to mechanize operations and increase efficiency. Improvements are being made by constructing new buildings which are better suited to modern farming methods. Shifts and adjustments are being made in combinations of enterprises on individual farms in an effort to produce more income.

Farmers' cooperative organizations are using increased amounts of credit to keep abreast of technological changes and to improve services they make available to farmers in processing, marketing, and storing agricultural products. Cooperatives are attempting to serve farmers more effectively by merging and consolidating their operations. The trend toward commercialization and specialization in agriculture makes it necessary for cooperatives to expand the scope of their operations in order to keep pace with the increased services needed by farmers.

Amount of loans outstanding to farmers and percent of total held, by types of lenders United States, Jan. 1, 1963 and 1962 [1]

Type of lender	Jan. 1, 1963		Jan. 1, 1962 [2]	
	Amount in millions	Percent of total	Amount in millions	Percent of total
REAL ESTATE LOANS				
Federal land banks	$3,023	19.9	$2,802	20.2
Insurance companies	3,391	22.4	3,162	22.8
Commercial banks	2,054	13.5	1,785	12.8
Farmers Home Administration	585	3.9	566	4.1
Individuals and others	6,107	40.3	5,576	40.1
Total	15,160	100.0	13,891	100.0
NON-REAL-ESTATE LOANS				
Production credit associations	1,839	14.5	1,640	14.1
Federal intermediate credit banks [3]	110	.9	99	.8
Commercial banks [4]	5,971	47.1	5,309	45.6
Farmers Home Administration	554	4.4	495	4.3
Individuals and others	4,200	33.1	4,099	35.2
Total	12,674	100.0	11,642	100.0
TOTAL LOANS TO FARMERS				
Held by farm credit banks	4,972	17.9	4,541	17.8
Held by other lenders	22,862	82.1	20,992	82.2
Total loans	27,834	100.0	25,533	100.0

[1] 48 States only.
[2] Revised.
[3] Loans to, and discounts for, financing institutions other than production credit associations only.
[4] Excludes loans guaranteed by Commodity Credit Corporation.

Source: U.S. Department of Agriculture.

Outlook

The 1964 farm financial outlook is for continued increases in farm assets, liabilities, and equities.

Gross farm income in 1964 is expected to fall short of the 1963 figure. Farm production expenses are expected to increase as much as they did in 1963 and possibly more. As a result, net farm income is likely to be lower by 5 percent or more. Despite a continuing decline in number of farms, net income per farm in 1964 may be about the same to slightly less than in 1963.

If land values continue to rise, farm assets and equities are expected to increase further in 1964. This trend will probably cause farmers to go ahead with plans to improve, enlarge, and modernize their operations to meet trends toward consolidations and new technologies. As a result, farm credit needs are expected to continue large in 1964. Farmers will continue to need additional amounts of credit for working capital and to finance farm improvement and enlargement. Because interest rates have moved up somewhat, however, and with credit now moderately tighter, the expansion in farmers' debts may be less in 1964 than it was in 1963.

Cooperative purchasing and marketing organizations are likely to continue to use large amounts of credit in the next few years with a continuation of mergers and consolidations. Many cooperatives will continue to need additional capital and credit to adapt and adjust their services to the changing needs of agriculture.

LENDING FUNDS OF THE FARM CREDIT BANKS AND ASSOCIATIONS

The lending funds used by the farm credit system are obtained primarily from the sale in the investment market of bonds and debentures of the farm credit banks. In this way, the farm credit banks and associations provide an effective link between farmer-borrowers and the investing public. The farm credit securities—consolidated Federal farm loan bonds, consolidated Federal intermediate credit bank debentures, and consolidated debentures of the banks for cooperatives—are not guaranteed by the Government either as to principal or interest but are secured principally by notes and mortgages deposited as collateral with the Farm Credit Administration. These securities are considered by the market to be prime investments.

Interest rates

On borrowings.—Short-term interest rates rose sharply in the calendar year 1963, in contrast to the preceding 2 years of relative stability. Rates on longer instruments also advanced during the year, although more gradually. These trends directly affected the interest costs of new issues of securities by the farm credit banks during 1963.

The cost (interest plus commissions to dealers) of Federal intermediate credit bank 9-month debentures, which are sold monthly, ranged from 3.25 percent at the beginning of 1963 to 4.10 percent for the debentures which were sold in December 1963 for delivery in January 1964. The range for 1962 was from 3.20 to 3.55 percent. The average cost (including dealers' commissions) of credit bank debentures outstanding rose from 3.31 percent as of December 31, 1962, to 3.66 percent at the close of 1963.

The 6-month debentures of the banks for cooperatives, which are issued every second month, ranged in cost (interest plus commissions to dealers) from 3.25 to 3.98 percent in 1963, as compared with a range of 3.15 to 3.48 percent in 1962. The average cost of these debentures outstanding climbed from 3.30 to 3.87 percent during 1963.

The Federal land banks in 1963 sold four new bond issues ranging in term from 1 to 15 years and in cost (reflecting interest, offering price, and commissions) from 3.91 to 4.16 percent. The average cost of all bonds outstanding rose from 4.06 to 4.17 percent during 1963.

On loans.—Several of the farm credit banks that finance themselves in the short-term market found it necessary to reflect the higher cost of borrowed funds in their lending rates. All of the credit banks and some of the banks for cooperatives raised their lending rates during 1963. The rates charged by Federal land banks were relatively unchanged.

As of January 1, 1964, four of the Federal intermediate credit banks were charging 4¾ percent on loans and discounts and seven were charging 4½ percent. At the end of 1962, six of the banks were charging 4¼ percent and five, 4 percent. The remaining bank follows a procedure under which it charges interest on all loans and discounts outstanding each month at a rate calculated to cover its cost of borrowed money for that month plus a margin fixed from time to time by its board of directors, with the approval of the Farm Credit Administration.

The lending rates of the banks for cooperatives as of January 1, 1964, ranged from 4¼ to 5 percent on commodity loans, from 4½ to 5½ percent on operating capital loans, and from 4½ to 5½ percent on facility loans. Six of the banks raised their rates during 1963.

At the close of 1963, nine of the Federal land banks were charging 5½ percent on new loans and one each was charging 5, 5.2, and 5¾ percent. A year earlier, nine banks were charging 5½ percent and one each was charging 5, 5¾, and 6 percent.

The interest rates charged by production credit associations also trended generally upward during 1963. As of January 1, 1964, these rates ranged from 5⅜ to 7½ percent and, as a year earlier, the most typical rate was 6 percent. But the number of associations charging more than 6 percent increased from 138 to 186 during the year.

THE FARM CREDIT SYSTEM

The farm credit system is comprised of 12 districts, each having a district office through which agricultural credit services are available to farmers and their cooperatives everywhere in the United States. The banks located in the 12 district offices are engaged in making or discounting loans to farmers and their cooperatives and in the supervision of the lending activities in the districts. The agencies in the system, their activities, and recent developments are described briefly below.

Federal land banks and Federal land bank associations.—The Federal land banks make real estate mortgage loans through Federal land bank associations which are credit cooperatives located in farm communities to provide convenient service to farmers. The banks have been wholly owned by farmer-borrowers since 1947, through ownership of stock in Federal land bank associations. As authorized by the Farm Credit Act of 1955 (69 Stat. 664), and to improve credit service, the banks may now make loans based upon appraisal reports on the security made by persons other than land bank appraisers. The Farm Credit Act of 1959 (73 Stat. 384) requires that such appraisals shall be made in accordance with appraisal standards prescribed by the Farm Credit Administration. Normal agricultural values used in appraisals are frequently reviewed to reflect permanent technological and other changes in agriculture. The Farm Credit Act of 1959 also removed the limitation on the amount of loans to any one borrower, but loans exceeding $100,000 must be approved by the Farm Credit Administration.

Banks for cooperatives.—These banks make loans to finance the operations of farm cooperatives. Title I of the Farm Credit Act of 1955 (69 Stat. 655) provided for several changes, the more important of which were provisions for permanent investment in the banks by borrowing cooperatives and others and retirement of the Government's investment, and limitation on the central bank to make loans only when it is not practicable for district banks to lend. Public Law 86–503, approved June 11, 1960 (74 Stat. 197), increased the size of the board of the central bank for cooperatives from 7 to 13 members, one from each of the farm credit districts and a director-at-large in order to provide for more direct representation by the district banks on the central bank's board of directors. The banks had $80 million of capital owned by cooperatives on June 30, 1963, and $94.8 million owned by the Government of which an estimated $13.9 million will be repaid in 1964 (repaid in August 1963) and an additional $11.8 million in 1965.

Federal intermediate credit banks.—These banks provide discount facilities for production credit associations and other financing institutions making loans to farmers and stockmen. They also supervise the operations of the associations, including all phases of their lending activities and furnish various services to assist the associations in conducting their operations.

As of June 30, 1963, the Federal intermediate credit banks had $115 million of Government capital, represented by class A stock owned by the Government. This sum includes $41.2 million of stock subscribed and paid for out of the short term credit investment fund, which is also available for the purchase of class A and class C stock of production credit associations. Class A stock of the banks is to be retired over a period of years primarily from net earnings of the banks, after which the banks will be wholly owned by the production credit associations. Net earnings of the banks, after credit to reserve account and payment of franchise taxes to the U.S. Treasury, will be distributed as patronage refunds in the form of class B stock to production credit associations and participation certificates to other financing institutions. Production credit associations and other financing institutions hold $49.9 million of class B stock and participation certificates issued by the banks (which will replace the class A stock being retired).

Production credit associations.—The present capital structure of the production credit associations has been built up principally through purchases of capital stock by member-borrowers and by retained earnings. Each borrower is required to own class B stock equal to 5 percent of his loan. Many members also have purchased and continue to hold class A stock in their associations and many borrowers own class B stock in excess of the amounts required to support their loans.

The short term credit investment fund is available for subscription by the Governor on behalf of the United States to class A and class C stock of produc-

tion credit associations, should the need therefor arise. Only $85,000 of Government funds were invested in PCA capital stock at January 7, 1964.

Of the 484 associations, 480 were wholly member-owned as of January 7, 1964.

Selected data on farm credit system activities are further illustrated in the following tables:

Net worth of farm credit system at June 30, 1963

Banks and associations	Paid-in capital	Earned net worth		Total net worth
		Reserved	Unreserved	
Federal land banks	$189,644,570	$282,171,753	$28,199,891	$500,016,214
Federal land bank associations	189,688,285	50,775,027	51,995,806	292,459,118
Federal intermediate credit banks	164,880,295	79,101,512		243,981,807
Production credit associations	225,291,912	153,348,920	14,182,693	392,823,525
Banks for cooperatives	161,023,073	107,752,113		268,775,186
Grand total	930,528,135	673,149,325	94,378,390	1,698,055,850
Less intercorporate items	237,219,765			237,219,765
Net total	693,308,370	673,149,325	94,378,390	1,460,836,085

Gross assets as of June 30

Assets by banks and associations	1961	1962	1963
Federal land banks	$2,936,383,478	$3,173,219,861	$3,403,469,628
Federal land bank associations	263,081,968	284,547,972	306,924,058
Federal intermediate credit banks	1,981,545,714	2,148,951,066	2,450,871,871
Production credit associations	2,115,793,770	2,318,098,188	2,650,479,707
Banks for cooperatives	674,347,739	760,395,376	767,576,333
Total	7,971,152,669	8,685,212,463	9,579,321,597

Amount of loans and discounts made, fiscal years 1961 through 1963

Lending banks and associations	1961	1962	1963
Federal land banks	$575,404,621	$636,099,939	$682,113,890
Federal intermediate credit banks	3,534,386,724	3,880,368,743	4,405,936,574
Banks for cooperatives	757,349,328	860,337,052	945,506,709
Production credit associations	2,740,315,968	3,021,311,565	3,421,948,165
Grand total	7,607,456,641	8,398,117,299	9,455,505,338
Less FICB credit to other farm credit banks and associations	3,304,087,563	3,634,294,944	4,131,597,345
Net total	4,303,369,078	4,763,822,355	5,323,907,993

Amount of loans and discounts outstanding at June 30

Lending banks and associations	1961	1962	1963
Federal land banks	$2,727,547,174	$2,968,437,556	$3,198,005,630
Federal intermediate credit banks	1,830,887,908	1,998,116,595	2,292,711,616
Banks for cooperatives	594,548,829	692,362,803	700.562,049
Production credit associations	1,813,774,763	1,994,369,309	2,300,401,919
Grand total	6,966,758,674	7,653,286,263	8,491,681,214
Less FICB credit to other farm credit banks and associations	1,724,979,897	1,883,486,696	2,166,014,313
Net total	5,241,778,777	5,769,799,567	6,325,666,901

Selected comparative data on Federal land banks and Federal land bank associations

Item	June 30, 1961	June 30, 1962	June 30, 1963
Federal land banks:			
Gross assets	$2,936,383,478	$3,173,219,861	$3,403,469,628
Loans outstanding:			
Number	379,958	381,147	380,493
Amount	$2,727,547,174	$2,968,437,556	$3,198,005,630
Loans closed during year ended:			
Number	46,985	46,729	46,957
Amount	$575,404,621	$636,099,939	$682,113,890
Repayments of loans during year ended [1]	$201,757,328	$236,425,319	$264,901,981
Percent of the number of loans delinquent	4.0	3.9	3.8
Real estate owned:			
Number	34	35	36
Investment	$315,934	$310,080	$430,810
Bonds outstanding	$2,356,377,800	$2,548,922,600	$2,723,577,600
Net worth:			
Capital stock owned by borrowers	$160,905,250	$175,617,230	$189,644,570
Legal reserve	$132,068,485	$140,368,534	$151,341,753
Surplus reserve	$126,140,000	$126,615,000	$130,830,000
Earned surplus	$29,316,051	$31,166,976	$28,199,891
Total net worth	$448,429,786	$473,767,740	$500,016,214
Federal land bank associations:			
Number of associations	791	775	763
Net worth:			
Capital stock owned by borrowers	$160,972,315	$175,697,590	$189,688,285
Legal reserve and surplus	$88,327,909	$94,926,396	$102,770,833
Total net worth	$249,300,224	$270,623,986	$292,459,118

[1] Includes principal matured, special principal payments, loans paid off prior to maturity.

Selected comparative data on Federal intermediate credit banks

Item	June 30, 1961	June 30, 1962	June 30, 1963
Gross assets	$1,981,545,714	$2,148,951,066	$2,450,871,871
Loans and discounts outstanding	1,830,887,908	1,998,116,595	2,292,711,616
Loans and discounts made during year ended	3,534,386,724	3,880,368,743	4,405,936,574
Repayments of loans during year ended	3,401,345,837	3,713,140,056	4,111,341,553
Unmatured debentures outstanding	1,723,300,000	1,855,400,000	2,133,300,000
Debentures issued during year ended	2,234,200,000	2,386,300,000	2,733,950,000
Federal franchise tax payable	2,492,080	2,376,051	2,731,557
Net worth:			
Capital stock owned by U.S. Government	97,489,120	101,389,120	114,989,120
Capital stock owned by production credit associations	30,871,170	38,735,345	47,575,195
Participation certificates, other financing institutions	1,274,385	1,789,435	2,315,980
Surplus, reserved	63,066,704	63,066,704	63,066,704
Legal reserve	8,413,640	12,000,335	16,034,808
Total net worth	201,115,019	216,980,939	243,981,807

Selected comparative data on banks for cooperatives

Item	June 30, 1961	June 30, 1962	June 30, 1963
Gross assets	$674,347,739	$760,395,376	$767,576,333
Number of borrowing cooperatives	2,795	2,817	2,824
Loans made during year ended	$757,349,328	$860,337,052	$945,506,709
Repayments of loans during year ended	$712,365,950	$762,259,805	$936,547,087
Loans outstanding	$594,548,829	$692,362,803	$700,562,049
Unmatured debentures outstanding	$382,000,000	$429,500,000	$459,000,000
Federal franchise tax	$2,356,664	$2,250,387	$2,170,283
Net worth:			
Capital stock or guarantee fund owned by borrowers and others	$55,791,822	$66,989,259	$80,111,973
Capital stock owned by U.S. Government	106,817,000	94,837,500	80,911,100
Surplus reserved	88,111,198	88,111,198	88,111,198
Surplus allocated to patrons	13,600,203	17,542,510	19,640,915
Total net worth	264,320,223	267,480,467	268,775,186

Selected comparative data on production credit associations

Item	June 30, 1961	June 30, 1962	June 30, 1963
Gross assets	$2,115,793,770	$2,318,098,188	$2,650,479,707
Number of associations	488	487	487
Number of member-stockholders	520,543	524,752	535,303
Amount of loans made during year ended	$2,740,315,968	$3,021,311,565	$3,421,948,165
Number of loans outstanding	296,099	298,679	307,983
Amount of loans outstanding	$1,813,774,763	$1,994,369,309	$2,300,401,919
Total amount of repayments of loans during year ended	$1,817,478,968	$1,970,493,720	$2,148,064,276
Amount of renewals	$775,996,848	$866,664,160	$964,133,489
Net worth:			
Stock owned by members (largely class B)	$183,255,002	$202,364,149	$225,116,912
Stock owned by U.S. Government (classes A and C)	830,000	465,000	175,000
Surplus	125,886,537	139,973,834	153,348,920
Unapplied earnings	12,790,905	13,481,939	14,182,693
Total net worth	322,762,444	356,284,922	392,823.525

SHORT-TERM CREDIT INVESTMENT FUNDS

This fund is available to the Governor of the Farm Credit Administration as a revolving fund for investment in capital stock of the Federal intermediate credit banks and the production credit associations. This fund was created by section 2(1) of Public Law 87-343 approved October 3, 1961, at which time the production credit associations and Federal intermediate credit banks investment funds were combined.

Program and financing

[In thousands]

	1963 actual	1964 estimate	1965 estimate
PROGRAM BY ACTIVITIES			
Purchase of capital stock:			
Federal intermediate credit banks	$13,600	$9,000	$8,400
Production credit associations		1,000	1,600
Total program costs, funded obligations	13,600	10,000	10,000
FINANCING			
Receipts: Repayment of investment in capital stock by production credit associations	290	80	100
Unobligated balance brought forward	71,985	58,675	48,755
Unobligated balance carried forward (—)	—58,675	—48,755	—38,855
Financing applied to program	13,600	10,000	10,000

Federal intermediate credit banks.—Funds will be required in 1964 and 1965 for investment in class A stock of the banks. An estimate of $9 million net investment is made for 1964 and $8.4 million for 1965. The estimate of requirements is based on recent projections made by the 12 intermediate credit banks which indicate that several of the banks will need additional capital in order to keep their debt-to-capital ratios within the 10-to-1 maximum permitted by law.

Production credit associations.—An estimate for purchase of stock in production credit associations of $1 million is made for 1964 and $1.6 million for 1965. The need arises primarily because the volume of business of associations is increasing more rapidly than necessary net worth can be accumulated from local sources.

Financing.—Of the $130 million in the fund authorized for financing the capital needs of the production credit associations and the Federal intermediate credit banks, it is estimated that $1.1 million will have been invested in the associations and $50 million in the banks by the end of 1964. An additional $1.6 million net investment in the associations and $8.4 million in the banks is expected in 1965.

The provisions of section 205(a) (1) of the Federal Farm Loan Act, as amended by the Farm Credit Act of 1956, which heretofore applied to the Federal intermediate credit banks investment fund is applicable to the combined fund. This section provides that of the $87,405,000 class A stock of the credit banks outstanding on January 1, 1957, $57,405,000 must be retired by payments into the Treasury as miscellaneous receipts. When the balance is reduced to $30 million, the remaining proceeds from the retirement of such stock will be credited to the combined revolving fund.

BANKS FOR COOPERATIVES INVESTMENT FUND

This fund (formerly the Agricultural Marketing revolving fund) is available to the Governor of the Farm Credit Administration for investment in class A capital stock of the banks for cooperatives (12 U.S.C. 1134b).

The fund was created with $500 million Government capital in 1929; however, the maximum amount ever made available for subscriptions to the capital stock of the banks for cooperatives was $185,918,743.10 and this was reduced to $150 million by legislation approved June 25, 1962 (76 Stat. 109).

Budget program.—No new subscriptions of capital stock are anticipated and stock will be retired by the banks for cooperatives in accordance with section 42(a) (1) of the Farm Credit Act of 1933, as amended.

Operating results and financial condition.—As of June 30, 1963, $94.8 million was invested in the banks. A reduction of $13.9 million is estimated for 1964 (received by the fund in August 1963) and an additional $11.8 million in 1965. These reductions will provide increases in the cash of the fund.

PASSENGER MOTOR VEHICLES

Farm Credit Administration: The Administration hires one automobile. The 1965 estimates do not provide for the purchase of autos.

This automobile is used primarily by the Governor's office for transportation to and from official meetings and conferences in Washington, D.C., with other Government officials, and with congressional bodies.

(Map showing location of Farm Credit districts may be found on facing page.)

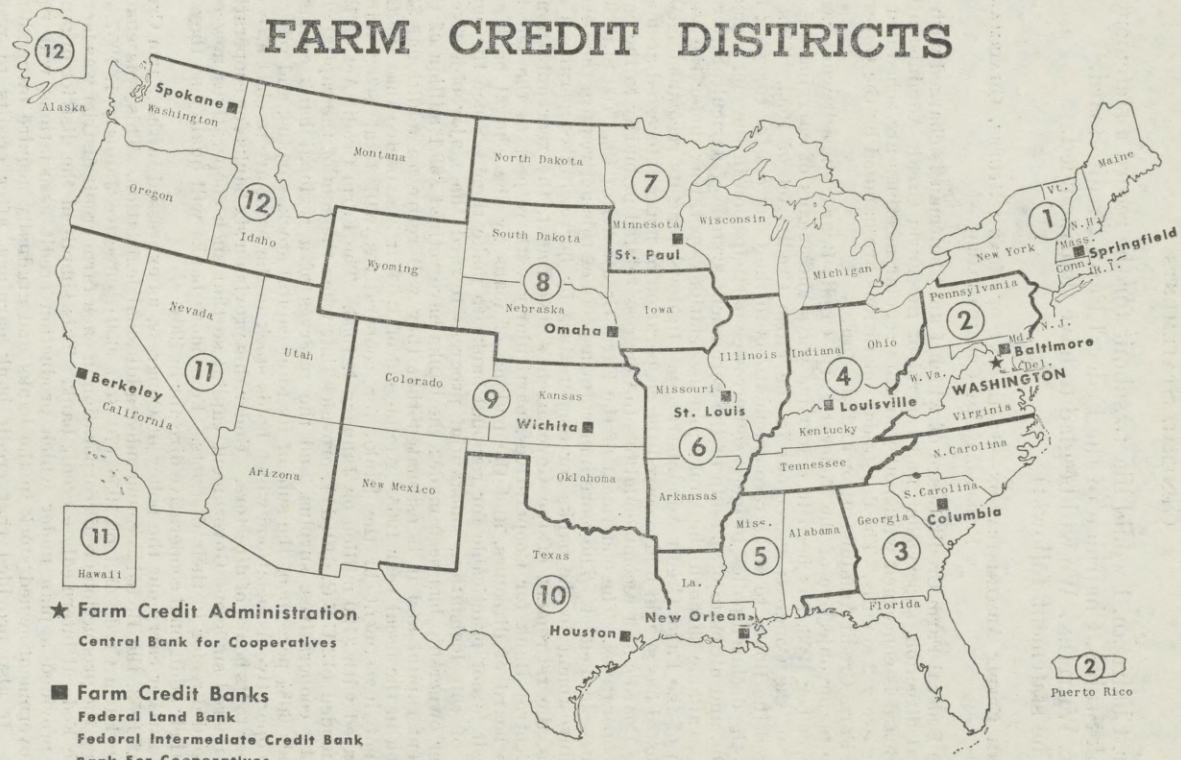
Mr. WHITTEN. Governor, we are always pleased to have you before us. We always like to find out the state of agriculture and farming. It is more comfortable to be here drawing a salary than perhaps to be farming, with no risk incident to it and no investment required. But agriculture today is quite a complex operation and we would be much worse off except for the availability of credit through the operations of your loan organization.

We are happy to have you. Proceed as you like.

Mr. TOOTELL. Thank you, Mr. Chairman. I am happy to be back here.

My two associates today are Mr. Paul Ritter, General Counsel, and Mr. James Pitts, our Budget Officer, who have been with me a number of times.

FARM CREDIT DISTRICTS



KANSAS STATE UNIVERSITY LIBRARY
MANHATTAN, KANSAS
MAY 196 13

Mr. Chairman, I would like to submit for the record a statement of Frank Stubbs, Chairman of the Federal Farm Credit Board.

Mr. Whitten. We will be glad to have that included.

(The statement follows:)

Farm Credit Administration—Statement of Frank Stubbs, Chairman, Federal Farm Credit Board

The Federal Farm Credit Board of which I am Chairman is charged with the general direction, supervision, and control of the Farm Credit Administration. The Board is concerned with policy and its regular meetings are scheduled for 3 days every 2 months. The day-to-day operations are handled by the Governor of the Farm Credit Administration and his staff.

The major objective of the Federal Farm Credit Board, since it was created in December 1953, has been to determine ways and means of carrying out the policy of the Congress as set out in the Farm Credit Act of 1953. This act directed the Board to make recommendations to the Congress for carrying into effect the declared policy to increase borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through the banks and associations operating under the supervision of the Farm Credit Administration. In developing its recommendations, the Board has sought and received the cooperation of many interested groups.

The Board's first recommendations to Congress related primarily to the banks for cooperatives. The enactment of the Farm Credit Act of 1955 (69 Stat. 655) put these into effect. The more important aspects of this act require the permanent investment in the banks for cooperatives by borrowing cooperatives and others, the retirement of the Government's investment, the reorganization of the Central Bank for Cooperatives, particularly with respect to the selection of its board of directors, and the making of loans by the central bank only when it is not practicable for regional banks to make them. Since the enactment of this legislation, substantial progress toward the major objective of farmer ownership has been made: the banks have retired $69.1 million of Government capital and it is estimated that they will retire an additional $11.8 million in the fiscal year 1965. At the end of 1965, it is expected that the Government investment in the banks for cooperatives will total $69.2 million compared with $150 million on January 1, 1956. The Farm Credit Act of 1937, as amended (12 U.S.C. 640(d)), provides that when the sum of the capital stock held by cooperatives, surplus, and the reserves of a regional bank equals or exceeds 66⅔ percent of the sum of its total capital stock, surplus, and reserves, the cooperative associations which holds stock in the bank are to elect a second member to its board of directors. Under this provision six banks for cooperatives have retired sufficient Government capital so that such cooperatives now elect a second director in their districts. Four more banks will qualify so they can elect their additional cooperative director in 1964.

To further carry out the policy of Congress, as expressed in the Farm Credit Act of 1953, the Board recommended additional legislation. This was enacted as the Farm Credit Act of 1956 (70 Stat. 659), effective January 1, 1957. By this act the production credit corporation in each farm credit district was merged in the Federal intermediate credit bank. This simplified the district organization, provided a plan under which production credit associations will retire all Government-owned stock in the banks and gradually acquire ownership of them. It also provided that credit bank earnings, after credits to reserve account and payment of franchise taxes to the U.S. Treasury, will be distributed on a patronage basis to production credit associations and other financial institutions rediscounting with and borrowing from the banks. The production credit associations and other financing institutions hold about $50 million of capital stock and participation certificates in the credit banks acquired under the provisions of the 1956 act. A very substantial increase in the volume of production credit association business during the last few years, however, has created a debt-to-capital-ratio problem in a number of the banks. This made it necessary for the Governor to purchase $41.2 million of class A stock in six of the Federal intermediate credit banks through 1963 fiscal year, to maintain a debt-to-capital ratio within the statutory maximum of 10 to 1. An additional

$900,000 of stock has been purchased in one of the banks during the current fiscal year.

As a further step toward the major objectives of the Farm Credit Act of 1953, the Board recommended legislation enacted as the Farm Credit Act of 1959. This act had two major objectives. The first of these amended the Federal Farm Loan Act by transferring responsibility for making appraisals from the Farm Credit Administration to the Federal land banks. This section of the act became effective December 31, 1959. The second objective was to clarify the status of district farm credit banks and their employees, and this section of the act was effective January 1, 1960. A major provision of this section defined employees of these banks as not being Government employees. Those employees under civil service retirement as of December 31, 1959, however, remained covered, but new employees, with minor exceptions, will be covered by the retirement plan developed in each district.

In order to provide for more direct representation by the district banks on the Central Bank's board of directors, the Board recommended legislation in 1960 to increase the size of the board of the Central Bank for Cooperatives from 7 to 13 members, one from each of the Farm Credit districts and a director-at-large. This legislation was enacted as Public Law 86–503, approved June 11, 1960 (74 Stat. 197).

During 1961 the Board recommended legislation, which was approved (75 Stat. 758), amending a number of provisions of the laws pertaining to the farm credit system so as to make its operations more useful to farmers and to make changes in the supervisory provisions of law relating to production credit associations. These changes permit amortized Federal land bank loan agreements to provide for repayment more frequently than semiannually and liberalize eligibility requirements for land bank loans to corporations engaged in farming operations. In addition, the maximum maturity permitted for loans and discounts by Federal intermediate credit banks was increased from 5 to 7 years. The 1961 act also combined the PCA and FICB revolving funds into a single revolving fund available for subscriptions to capital stock of both production credit associations and Federal intermediate credit banks. In the future each production credit association is required to include each year as an operating expense, provision for valuation (bad debt) reserves amounting to one-half of 1 percent on loans outstanding at the end of the fiscal year until such reserves equal or exceed 3½ percent beyond which further additions are not required but may be made.

A final provision of the 1961 act permits the interests in a bank for cooperatives which are owned by a cooperative association which has been a borrower from the bank for cooperatives, to be retired at the time of liquidation or dissolution of the association.

After a careful review of the capital requirements of the banks for cooperatives, the Board recommended to Congress that the revolving fund available for subscriptions to the capital stock of the banks be reduced to $150 million. This proposal was approved on June 25, 1962 (76 Stat. 109).

The Board recently submitted to Congress proposed legislation which has been introduced as S. 2565. The bill is entitled to amend further the Farm Credit Act of 1933, as amended, to provide that part of the patronage refunds paid by a bank for cooperatives shall be in money instead of class C stock after the bank becomes subject to Federal income tax, and for other purposes. A bank for cooperatives becomes subject to Federal income tax after the stock held in it by the United States has been retired and for one or two of the banks this is expected to be by July 1, 1965. In effect, the amendment would provide for 20 percent of the patronage allocations and refunds of a bank for cooperatives each year to be paid in money so that the amount of such allocations and refunds may be qualified for deduction from the gross income of a bank in computing its taxable income.

It is anticipated that additional proposed legislation will be submitted to Congress during this session. A committee has been appointed to study all phases of the capitalization of the credit banks and production credit associations. One of the major objectives of the study is to recommend ways to halt reinvestment by the Government in the capital of the credit banks and to expedite liquidation of the Government capital now in the banks. Government capital in production credit associations has been reduced from $90 million to $85,000. All except 4 of the 484 production credit associations are wholly farmer owned. The 12 Federal land banks have been completely owned by their farmer borrowers since 1947.

The Board continues to seek the best ways and means to provide the most effective credit service possible to farmers and their cooperatives at the lowest cost consistent with sound business principles. New approaches continue to be explored and, where proved feasible, are used in its efforts to insure that the needs of an ever changing agriculture are financed on a sound basis. The Federal Farm Credit Board continues to work for economical and efficient operations for all parts of the system.

Mr. TOOTELL. And I personally have a prepared statement which I should also like to submit for the record, but not read it unless you feel that would be desirable.

Mr. WHITTEN. We will have it for the record and you can just touch on the high spots, if you like.

(The prepared statement follow:)

STATEMENT OF ROBERT B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION

We have for consideration the budget estimates of the Farm Credit Administration. Sound administration and operation at a prudently economical cost is the policy of Farm Credit Administration and the agencies it supervises. The administrative expense limitation representing authorization for expenditures of assessments collected from farm credit banks and associations is estimated at $2,876,000 for 1965, which is $91,000 more than that estimated as available for 1964. The increase of $91,000 for 1965 over 1964 is necessary primarily to meet the additional increased pay costs (Public Law 87–793) effective in January 1964.

I would like to review briefly the organization and activities of Farm Credit Administration and the farm credit banks and associations, and to comment on the agricultural and economic conditions which will have a bearing on them.

FARM CREDIT ADMINISTRATION

The Administration is an independent agency in the executive branch of the Government under the policy direction of the Federal Farm Credit Board. It provides for supervision and examination of a coordinated system of farm credit banks and associations which make loans to farmers and their cooperatives. The expenses of the Administration are paid from funds provided by assessments collected from these banks and associations. The system consists of 37 banks and 1,240 local associations. The 12 Federal land banks make real estate mortgage loans on farms through Federal land bank associations. The 13 banks for cooperatives make loans to farmer cooperatives. The 12 Federal intermediate credit banks provide agricultural loan and discount facilities for production credit associations and other eligible financing institutions. The 756 Federal land bank associations and 484 production credit associations are credit cooperatives located in farm communities. They provide convenient service to members. Loan funds of the banks and associations primarily come from the sale in the open market of bonds and debentures. These are not guaranteed by the Government either as to principal or interest.

AGRICULTURAL CREDIT TRENDS

The Farm Credit Administration and the farm credit banks and associations, which it supervises, endeavor to follow closely the changes in agriculture that affect farmers' use of capital and credit. This includes studying shifts and trends in agriculture that affect the financial position of farmers. It also involves keeping up with changes in the demand for farm products as well as fluctuations in the volume of agricultural output which influence farmers' plans for using credit. Some current trends causing farmers to use more capital and credit are commercialization and specialization in agriculture and the larger size of farm operations.

Agricultural conditions

Gross incomes received by farmers in the United States reached a new peak of $41.0 billion at the end of 1963 as compared with $40.8 billion in 1962, and $39.6 billion in 1961. Most of the increase in gross income received in 1963 was due to a larger volume of farm output of both crops and livestock. Commodity prices averaged slightly lower than in 1962. Because of increased farm production

costs, the net farm income level of $12.2 billion was less than in the 2 previous years. In 1962 net farm income totaled $12.6 billion and in 1961 it was $12.5 billion.

Farmers generally had good incomes in 1963 but there were some variations between regions. The Lake States, the Northeast, the Appalachian area, and the South were affected by drought and other adverse weather. With short hay and pasture crops, many dairymen had to make large cash outlays for feed. Cattle and hog feeders experienced some reverses as a result of lower prices and increased feed costs. Some farmers suffered from reduced crop yields in the southern Great Plains area.

Farmers' financial position

The higher income received in the last few years has enabled some farmers to improve their financial position. Total assets held by farmers amounted to $226.2 billion at the end of 1963 compared with $216.5 billion in 1962, and $200 billion in 1960. Most of this increase has resulted from higher farm real estate values. Additions to holdings of livestock, equipment, and financial reserves have been modest.

Farmers' debts continued to increase following the upward trend of the past several years. Total debts of farmers increased from $24.1 billion at the end of 1960 and $27.9 billion in 1962 to $30.5 billion at the end of 1963. All types of farm credit—short-, intermediate-, and long-term—have been rising. Longer term mortgage debts of farmers now amount to about $16.7 billion while non-real-estate debts total $13.8 billion. Total debt amounted to $32.8 billion at the end of 1963 including CCC loans. Trends toward commercialization and specialization in agriculture and the larger size of farm units have resulted in increased capital demands.

Higher prices require additional credit to finance the purchase of land, modern buildings, and equipment. Today's commercial and specialized farms require more operating capital. Credit also is needed to finance the shifts and adjustments which are made frequently to both maintain and increase efficiency and to meet changing demand.

Because the value of farmers' assets has risen faster than debts, the net worth of farmers has improved. Net worth increased from $174 billion at the end of 1960 and $186 billion in 1962 to $193 billion at the close of 1963.

Loans of the farm credit banks

Farm credit banks and associations advanced a net total $5.6 billion in credit to agriculture in the calendar year 1963. This compares with $5.1 billion in 1962 and $4 billion in 1960. Increases occurred in the amount of loans made by each group of banks and associations. Again this year, because of the strong demand for credit from agriculture, the total net amount of outstanding loans held by the farm credit banks and associations increased from $4.8 billion at the end of 1960, $5.8 billion in 1962, to $6.4 billion at the close of 1963.

The Federal land banks made $743 million of farm mortgage loans in 1963. This is the largest amount of credit ever extended by the land banks during any calendar year. Loans made by the land banks amounted to $645 million in 1962 and $504 million in 1960. At the end of 1963 the land banks had $3.3 billion in outstanding loans compared with $3.1 billion in 1962 and $2.6 billion in 1960.

Loans made by the production credit associations in 1963 amounted to $3.6 billion which compares with $3.2 billion in 1962 and $2.6 billion in 1960. Production credit association loans outstanding at the end of fiscal 1963 totaled $2.1 billion compared with $1.9 billion a year earlier.

Most of the credit extended by the Federal intermediate credit banks is in paper discounted for and in loans made to production credit associations. Credit also is extended to other financing institutions such as agricultural credit corporations, livestock loan companies, and commercial banks. Credit advanced to these other financing institutions amounted to $282 million in 1963 as compared with $265 million in 1962 and $229 million in 1960.

During 1963 the banks for cooperatives made $1 billion in loans to farmers' marketing, purchasing, and service cooperatives. This compares with $923 million in 1962 and $684 million in 1960. At the end of 1963 the banks for cooperatives held $840 million in outstanding loans compared with $735 million a year earlier.

Outlook

The farm financial outlook in 1964 is for continued increases in assets and equities but for some decline in net income. With costs continuing upward, a decline of perhaps 5 percent or more in net income is expected in 1964 if receipts from wheat are reduced as much as expected.

With farm output expected to be at a high level in 1964, farmers again will need large amounts of credit to finance their operations. Because net incomes are under pressure, farmers will be seeking capital funds to finance expansion and improvements. Since farmers' net incomes may be somewhat lower in 1964, it will be necessary for lenders to give increasingly careful attention to repayment capacity in extending credit to agriculture.

Farmers' cooperative associations will need large amounts of credit to finance increases in the volume of farm marketings and in services needed by members. Many are using credit to enlarge and modernize their operations not only to maintain but increase efficiency. Some are attempting to improve services furnished to farmers by merging and consolidating with other cooperatives. These trends are likely to mean that cooperatives will continue to need large amounts of capital and credit in the period ahead.

INTEREST RATES

On borrowings.—Because the farm credit banks obtain their lending funds principally from the sale of their bonds and debentures to the investing public, they are directly affected by changes in the level of interest rates in our national economy. After 2 years of relative stability, short-term interest rates turned up fairly sharply in 1963. Long-term rates also increased during the year, but more gradually.

As a result, the cost of new issues of Federal intermediate credit bank 9-month debentures rose from 3.25 percent at the beginning of 1963 to over 4 percent at the yearend. The average cost of credit bank debentures outstanding increased from 3.31 to 3.66 percent during the year.

New issues of bank-for-cooperatives 6-month debentures also increased in cost during 1963, from 3.25 to 3.98 percent, and the average cost of their outstanding debentures moved up from 3.30 to 3.87 percent.

The cost of borrowed funds to the Federal land banks, which finance themselves in a longer maturity sector of the market than do the credit banks and banks for cooperatives, was less affected. The average cost of land bank bonds outstanding, reflecting four new issues during 1963, rose from 4.06 to 4.17 percent.

On loans.—All of the Federal intermediate credit banks and six of the banks for cooperatives, as a result of the higher cost of borrowed funds, made fractional increases in their lending rates in 1963. At the close of the year, the credit bankrates on loans and discounts ranged from 4½ to 4¾ percent as against 4 to 4¼ percent at the beginning of the year. The lending rates of the banks for cooperatives rose to a range of 4¼ to 5½ percent by the end of 1963 as compared with 4 to 5½ percent a year earlier. The Federal land banks' rates on new loans were little changed; these ranged from 5 to 5¾ percent at the end of the year.

A number of the production credit associations also raised their lending rates by small amounts during 1963 because of the higher credit bank loan and discount rates. But at the end of the year most of the associations were still charging 6 percent or less, the same as a year earlier.

In summary, I believe the credit needs of farmers and farmers' cooperatives will be at a high level for the next few years. The farm credit system is able to obtain ample lending funds from the competitive market to meet the need for the types of loans it makes. The banks and associations have the necessary means to supply the credit which they will be called upon to furnish. Each of the three bank systems sells its own bonds and debentures to the investing public. Farmers are fortunate in having a variety of sources from which to obtain their credit needs.

COMPARISON OF OPERATIONS IN 1953 AND 1963

Mr. TOOTELL. The Federal Farm Credit Board in December of last year completed—celebrated, shall I say—its 10th anniversary. It was created by the Farm Credit Act of 1953.

I have here in tabular form comparative data on the farm credit system, which I should like to submit for the record, and to discuss with members of your committee.

Mr. WHITTEN. We will be glad to have that.

(The table referred to follows:)

Comparative data for the Farm Credit Administration and for the district banks and associations it supervises

Item	Dec. 31, 1953	Dec. 31, 1963	Percent change
Farm Credit Administration:			
Total number of positions	[1] 357	232	−35.0
Expenditures for fiscal years 1953 and 1963	$2,122,197	$2,570,586	+21.7
Dollar volume of loans outstanding for system	$2,172,088,000	$6,402,700,000	+194.0
Federal land banks:			
Personnel employed [2]	[1] 1,173	872	−25.7
Number of loans outstanding	318,452	378,868	+19.0
Dollar volume of loans outstanding	$1,179,889,000	$3,309,883,000	+180.5
Federal land bank associations:			
Number of associations	1,134	756	−33.3
Personnel employed [3]	1,862	1,610	−13.5
Federal intermediate credit banks:			
Personnel employed (include PCC positions, merged Jan. 1, 1957) [2]	440	383	−13.0
Loans and discounts made during year	$1,777,859,000	$4,566,329,000	+156.8
Production credit associations:			
Number of associations	498	484	−2.8
Personnel employed [4]	3,284	3,975	+21.0
Number of loans made during year	266,320	[5] 358,823	+34.7
Dollar volume of loans made during year	$1,226,469,000	$3,550,795,000	+189.5
Banks for cooperatives:			
Personnel employed [2]	229	246	+7.4
Number of cooperatives with loans outstanding	2,015	2,799	+38.9
Dollar volume of loans outstanding	$372,111,000	$840,122,000	+125.8

[1] In order to make the number of employees comparable between 1953 and 1963, the figure has been adjusted to reflect the transfer of 35 FCA appraisal positions from the payroll of the FLB's to the FCA payroll, pursuant to an amendment to the Farm Credit Act effective Dec. 31, 1959.
[2] Includes full-time employees and half part-time employees.
[3] Represents full-time equivalent as of July 1.
[4] Represents full-time equivalent as of Dec. 31, 1953, and Dec. 31, 1962.
[5] Represents number of borrowers served during the year.

Mr. TOOTELL. We have data in three columns, December 31, 1953, December 31, 1963, and the percentage change in that 10-year period. The first section of this table deals with the Farm Credit Administration which members of your committee know is the Federal agency that supervises the Federal land banks, the Federal intermediate credit banks, the production credit associations, and the banks for cooperatives.

REDUCTION IN FARM CREDIT PERSONNEL

I call your attention first to the percentage reduction in the number of positions in the Farm Credit Administration, the Federal supervising agency. You will notice this is a 35-percent reduction. Now, actually, practically all of that 35-percent reduction was made in the first 4 years after the Federal Farm Credit Board came into being. And we have held rather constant at what we feel is a minimum number of employees since that time.

Now, we made that reduction in spite of the fact that the dollar volume of loans of the system, dollar volume outstanding, which you will notice down two lines further, nearly trebled. The dollar volume in this period went from $2,172 million-plus, to $6,402 million-plus in that period of time.

A key to our being able to do this, to reduce our force in spite of this very substantial increase in credit business which we were supervising

was first, a very definite program of decentralization of our operations, and second, I would say, continued study of ways and means of increasing our efficiency.

REDUCTION IN FEDERAL LAND BANK PERSONNEL

Then if you will look on down the line, the Federal land banks come into the picture next. They made a reduction of almost 26 percent in their personnel. We think it is quite significant that they increased the number of their loans during this period by 19 percent in the face of a reduction of approximately 30 percent in the total number of farms in the United States. And their volume of business, their increase in business, was almost as great as the percentage increase for the system itself.

CONSOLIDATION OF FEDERAL LAND BANK ASSOCIATIONS

The Federal land bank associations, you will notice, decreased substantially in number. Mergers and consolidations to make for efficient operating units out at the local level, which units would have enough volume to employ a competent manager and a competent secretary. There was a decrease of 13.5 percent in the personnel of the Federal land bank associations.

The Federal intermediate credit banks decreased their personnel by 13 percent, and their volume of business, we will see, was increased very substantially.

INCREASED VOLUME OF PRODUCTION CREDIT ASSOCIATION

Production credit associations, with a slight reduction in the number, increased their personnel by 21 percent. They increased the number of their borrowers, however, by 34.7 percent, which we think is really a very fine showing. Of course, in the short-term lending field, where the loans are renewed each year, you have a fairly high correlation between your number of loans and your personnel. That is why they had to increase personnel but only about two-thirds as much of an increase as in the dollar volume of business.

BANKS FOR COOPERATIVES

The banks for cooperatives had a very slight increase in personnel. They increased the number of farmer cooperatives to whom they had loans outstanding during this 10-year period by 38.9 percent. Now, this is in the face of a decline of approximately 1,000 in the total number of farmer cooperatives in the United States during this period. The number went down essentially from 10,000 to 9,000, that would be approximately it.

I submit this and say that we are proud of this record, but I also hasten to state that we are not complacent as a result of it, that we are continually looking for ways and means to increase our efficiency and increase our service to farmers and their cooperatives.

Mr. Chairman, are there any questions on this table?

Mr. WHITTEN. I don't know that I have any with regard to the table. I think it speaks for itself and we on the committee have been proud of the way you have held down the administrative overhead

through the years. We recognize the differences between the production credit associations and the work which they have to do.

RELATIONSHIP OF VARIOUS BANKS

How many local banks do you have that deal with the banks for cooperatives?

Mr. TOOTELL. Mr. Chairman, there are 12 district banks for cooperatives, 1 in each of the 12 farm credit districts, plus the central bank, which is located here in Washington, and which makes no direct loans to farmer cooperatives any more, but participates in the oversized loans, in the large loans with the district banks.

Mr. WHITTEN. And the district bank for cooperatives, they make their loans to——

Mr. TOOTELL. Only to farmer cooperative associations, marketing associations, farm supply associations, and farm service cooperatives.

SOURCE OF FUNDS

Mr. WHITTEN. Where do the bank for cooperatives, the central bank, and other banks, derive their funds?

Mr. TOOTELL. They get their loan funds in the same way as Federal land banks——

Mr. WHITTEN. Debentures?

Mr. TOOTELL. Through the investors in the open market. All 37 farm credit banks—12 Federal land banks, 12 intermediate banks, and 13 banks for cooperatives—jointly employ a fiscal agent who is located in the financial district of New York City. This has been the arrangement since some time in the mid to late 1920's. The fiscal agent this past year sold something more than $4.5 billion of farm credit securities to the investing public.

RATE OF INTEREST TO THE BANKS

Mr. WHITTEN. What is the average rate that you have to pay to get your money?

Mr. TOOTELL. I am sure you realize that——

Mr. WHITTEN. There is a wide variation and you might want to break it down between the various ones.

Mr. TOOTELL. Our banks, of course, have to pay what the current market price is.

Yesterday afternoon we priced an issue of bank for co-op debentures that will be issued on April 1. Those are 6-month debentures, and we were able to put a price of $3\frac{95}{100}$ on them. It was the opinion of our fiscal agent and the Committee of Bank for Co-Op Presidents that works with the fiscal agent on this pricing and of our own people, that this coupon rate would move the issue. This is five-hundredths better than we feared we would be able to do. We were afraid we were going to have to pay 4 percent.

Mr. WHITTEN. That being true and the wonderful record you have, am I right in my recollection that your debentures are not guaranteed by the Federal Government in any way, but they look entirely to your financial structure?

Mr. TOOTELL. That is true.

Mr. WHITTEN. For their payment.

Mr. TOOTELL. These are consolidated trust debentures. They are backed up by the combined assets of all 13 banks for co-ops. The 12 banks in each of the other two systems jointly support their respective issues.

Mr. WHITTEN. Then the main source of business for your banks starts of course at the working level, that is, with the farmer or with the cooperative?

Mr. TOOTELL. That is right.

INTEREST RATE TO BORROWERS

Mr. WHITTEN. Do you vary interest rates by associations or by cooperatives?

Mr. TOOTELL. The interest rate which a district bank for cooperatives charges the farm cooperatives in its district is the same for all loans of each type, and there are three types of loans which the banks for cooperatives make. They make facility loans, they make operating loans, and they make commodity loans, which are secured by commodities which are evidenced by warehouse receipts. Interest rates vary somewhat for each type.

The typical facility loan rate right now of banks for cooperatives is probably 5¼ percent. That would be the average—4¾ to 5 percent would be the typical operating capital loan rate, and 4½ percent probably typical for commodity loans.

Mr. WHITTEN. Now your local associations who lend directly to farmers, what is their variation between the different associations?

Mr. TOOTELL. The production credit associations in their short-term loans—and I have up-to-date figures on that—the most common rate now is 6 percent; 242 of the 484, in other words, precisely half of them, now are at 6 percent. And then they go actually from 5½ percent to—there are 25 that are at 7 percent.

REGULATION OF LOCAL INTEREST RATES

Mr. WHITTEN. What part do you play in regulating the interest rate that the local association may charge? Or do they have authority to set that themselves?

Mr. TOOTELL. That decision rests with the board of directors of the Federal intermediate credit bank in each district.

Mr. WHITTEN. They control that by making available credit through the bank?

Mr. TOOTELL. That is right. The Federal intermediate credit bank is the source of loan funds for the production credit associations.

TREND IN INTEREST RATES

Mr. WHITTEN. Now, what has been the trend in interest rates for the last 12 months? Has there been any significant change?

Mr. TOOTELL. Yes, there has. Interest rates were quite stable during the years 1961 and 1962. That has been the most stable interest rate period in a long, long time, probably since the Treasury-Federal Reserve accord in 1951. But beginning in late 1962, and early 1963, interest rates started to climb. And in the year 1963, interest rates

that we have had to pay were about three-quarters of 1 percent higher at the end of 1963 than they were at the beginning of 1963.

Mr. WHITTEN. You are not trying to prognosticate about the future?

Mr. TOOTELL. Mr. Chairman, I feel that one can do it in an "iffy" sort of way. I think it depends a good deal on what the general economy does for the rest of 1964. If we continue to have a pickup in the tempo in our general economy, I would expect interest rates to increase still further before the end of 1964. This is the traditional pattern and I would see no reason why it wouldu't be the case in this situation.

Mr. WHITTEN. Governor, we all realize that we are in an economy with a growing population where, for many years, the man in agriculture has had to increase his investment in equipment and runs a greater and greater risk from a dollars-and-cents standpoint. And we notice that, as a result, during that same period, the farm debt has risen along with the farm gross income. Net income hasn't stayed as consistent.

PERCENTAGE OF FARMERS WHO MORTGAGE REAL ESTATE

Now, the thing that is disturbing to me are the reports that more and more farmers are having to mortgage their land. Any time a farmer can obtain credit without having to mortgage his real estate, it is a fairly good sign that his problems are immediate or temporary or that he has his head above the water.

What is the true situation with regard to the percentage of farmers who are mortgaging real estate?

Mr. TOOTELL. It is definitely up. The low point, of course, in the percentage of farmers with real estate mortgages, was reached in the late forties, soon after the war, and since that time, for more reasons than one, the percentage has been increasing. Since that time, there has been a tremendous consolidation of farms, the dropping out of the smaller farms and the acquisition of their assets by farmers who remained—and really, a substantial amount of the credit that has been extended to agriculture, and particularly the long-term credit, in the last 15 years, has been to finance the transfer of assets from the people who were leaving agriculture to people remaining in agriculture.

It would be an extremely happy situation, of course, if the only borrowing a farmer had to do would be for his operating capital, his working capital, but I think that would be an ideal situation that we could never hope to even approach very closely. In fact, few businesses do.

The majority of them have a certain proportion of their debt that is of a semipermanent type and I think that is what is involved with the typical farmer who is a good businessman. He is going to borrow money as long as he feels that by doing so he can increase his total income and make money by doing it. This is the attitude of the typical progressive farmer today.

Mr. WHITTEN. You recall the man in my county some years ago who, when he died (he made his money himself) left a will. After providing for the distribution of his property, he left quite a bit of

cash in bonds and he directed his wife to borrow money from the Production Credit Association—"it is cheaper than using our own."

Mr. TOOTELL. I didn't know about that one. I hope you tell that story far and wide, Mr. Whitten.

I think this essentially is the reason for it and I am glad of the opportunity to get this in the record.

The Production Credit Association charges a member borrower interest only on the number of dollars that he has borrowed for the number of days he has it borrowed.

At the beginning of the year, when the loan is renewed or when the new loan is made, a line of credit is established, we will say; maybe this is $10,000. And a budgeted type of loan is worked out indicating approximately what months he will need how much, and what his repayment schedule will be. And so he pays interest only on that money which he has borrowed and this would add up to probably, in a typical production loan, to something like a fourth of what the interest would appear to be on this $10,000. Six percent interest on $10,000 is $600; isn't it?

I would say probably that his interest bill would typically be $150. It would be about a fourth of that full year's interest.

Mr. WHITTEN. In other words, this man's advice to his wife would be sound. If she had her money invested where it was drawing interest on a 12-month period, it probably would be wiser to borrow money on a few month's basis to meet her needs, under the circumstances?

Mr. TOOTELL. Even if she had to pay 2 percent more as a face interest rate.

PROSPECTS FOR THE YOUNG FARMER

Mr. WHITTEN. Last year, I believe, or the year before, several land-grant college presidents wrote me that they didn't like my questions when I asked, "How many students in the agricultural colleges of the country were studying agriculture." The percentage was tremendously low.

Now there are many reasons why there are fewer and fewer persons in agriculture with much, much higher investment. We know that in the land-grant colleges and the agricultural colleges in most instances are teaching engineering and many other courses. They are complete universities and the interest of the American people is in many directions.

One of the disturbing factors is that I don't know of anyone in my acquaintance who believes that any young man—I don't care how much training he has—could borrow money and go into agriculture tomorrow and ever hope to pay out.

Now you may think they can, but I don't know of anybody that has that confidence. It is the only business I know of where that general attitude prevails. I think the record tends to substantiate what I am saying.

Now if a son inherits a farm and starts from scratch, owning the land—that is one thing. But if you borrow and pay prevailing interest rates, I don't know of anybody who feels that it would be a sound investment. In fact, I don't know of anybody that would lend the money to back a person under those conditions.

Mr. TOOTELL. 100 percent?

Mr. WHITTEN. That's right.

Mr. TOOTELL. I think this is true, Mr. Chairman. I think it would be very questionable whether the typical person who would be interested in entering farming, even though he might be quite an able fellow, would be able to carry the loan and eventually pay out if he borrowed the whole sum.

But I am under the impression that there are very few types of business in which that can be done, and I am also under the impression that over time, very few farmers have done this. Typically, young people have been helped by relatives or friends in the community who knew them well and who were willing to stake them, as it were, and go along with them. It is increasingly difficult because of these very high capital requirements in agriculture nowadays.

Mr. WHITTEN. The higher the capital requirement, the greater the risk. We have mentioned this many times and, I believe the record shows, that it used to take about 6 or 7 years for a man, if he had complete crop failures, to lose his land. This means that he put out very little cash each year. Now I think the latest figure is something like 20 months under present agricultural conditions in many areas. If you had a complete failure for 20 months, slightly less than 2 years, you could lose the land investment. If a man can lose his land in 20 months, it might scare a lot of bankers off.

RESPONSIBILITY OF FARM CREDIT ADMINISTRATION

Mr. TOOTELL. I think this is true, and this is one of the things which makes us realize that a very heavy responsibility rests on our shoulders.

The PCA last year lent about 3½ billion to some 360,000 farmers. And this really is a tremendous responsibility, to loan the right amount. If you loan a man something less than it takes to really do the job, then you are not a constructive force in this thing. You are not rendering the service that you should.

On the other hand, to loan him more than he can reasonably expect to repay, is no service, so it takes loan men of considerably higher quality nowadays than it did even 10 years ago.

And another one of the things they have to evaluate nowadays that wasn't as important 10 years ago is this factor of management. This becomes the key pretty much when you get into these high investment figures.

Mr. WHITTEN. I mentioned earlier that in many areas of the country now, the farming business has gotten so big and so risky and so complex that frequently the farm management has to be better prepared than many folks actively engaged in agriculture for the Department. I say that in a wider scope than perhaps a man handling an individual position.

Well, it is always interesting to talk to you, Governor, and we always find your program in good shape. I think you have done a fine job, not only you, but those associated with you.

Mr. Natcher?

Mr. NATCHER. Mr. Tootell, I want to join my chairman in thanking you and your staff for appearing before our committee at this time. As our chairman pointed out, Governor, certainly it is a right difficult matter today for anyone to borrow all of the money necessary to buy a farm and have a successful operation.

CAMP BRECKENRIDGE

In the Second Congressional District of Kentucky, we have Camp Breckenridge, which, as you probably know, is a military reservation. This reservation was used from 1941 up until 1953, and it was placed on a standby basis. It has 36,000 acres and, finally, I succeeded in having the authorities declare this reservation surplus.

We are now in the process, Governor Tootell, of having it appraised by the General Services Administration and a number of original owners of farms will be coming to your organization for loans. I hope that every assistance is rendered to these people and especially the ones that want to buy back their homes and the young farmers that want to buy this land and start an operation.

In a great many instances, the original owners will try to buy back their farms. To give you some idea about the difficulty that they will experience, several months ago, before the order declaring this reservation surplus was entered, the Department of Interior decided that they had better lease off a small strip of land at the edge of the reservation to protect the reservation since private interests were drilling on the other side.

They took a small strip of 190 acres, just a very small strip running along the edge of the reservation, and they asked for bids on it. The lowest bid was 12 cents, and the highest bid was some $454,000. You don't hear of anything like that in Texas.

Now, not all of this land has that kind of oil under it. Some of it does. But, at least, Governor Tootell, I would appreciate it if you would alert your people to watch this matter and I do hope that every consideration will be given to those people who want to make reasonable loans to buy back their farms and the young farmers that want to go in and try to buy this land to establish a home.

This is rich farmland, and, in my opinion, it should never have been a military reservation. But it was, and for a period of many years, the people in this section of my district have suffered considerably over this matter.

So, I just want to call it to your attention and I know that every consideration will be given to the people.

Mr. TOOTELL. We will be very glad, Mr. Natcher, to call it to the attention of the officials of the farm credit banks of Louisville, this situation. We have a good deal of confidence in them. Both the President of the Federal land bank and of the intermediate credit bank there are quite alert and, I would say, aggressive operators, and quite cognizant of the importance of rendering service to farmers in your district.

Mr. NATCHER. I certainly appreciate it and, again, I want to thank you and the members of your staff for your appearance.

Mr. TOOTELL. Thank you. Thank you for your compliment.

Mr. WHITTEN. Mr. Addabbo?

AVERAGE INTEREST RATES

Mr. ADDABBO. Governor, what is the average rate of interest charged on the loans?

Mr. TOOTELL. The Federal land bank loans, most of them carry 5½ percent rate, one of the districts, 5¾. There is one that is 5 2/10, but 5½ is the typical rate.

The Federal intermediate credit banks, typically now, have a discount rate of 4¾. This is what they charge a PCA which in turn charges typically 6 percent, as we indicated earlier.

COMPETITION WITH PRIVATE LENDERS

Mr. ADDABBO. Are you in any way in competition with private lending institutions?

Mr. TOOTELL. Yes, I think I have to say quite frankly that to some extent, we are. And here is the problem of which we are faced in this. The reason the farm credit banks came into the picture, starting with Federal land banks in 1916, was because traditionally, the rural areas were short of capital in comparison with cities.

Capital flows into the cities, the money centers. And this takes place particularly in periods of great prosperity, when money is tight.

It also takes place in periods of depression, where you get the other extreme. There is conservatism and many people who are lenders in rural areas, commercial banks which are lenders in rural areas during reasonably good times, withdraw from the agriculture lending field.

And so Congress established the Federal land banks to begin with, in 1916, and then successive periods these other institutions to provide for agriculture types of credit that were suited to its needs rather than for having to rely on commercial banks which essentially render a type of credit service that is more suited to the needs of industry and commerce.

In order to have an efficient credit service, you must be in there perpetually. It isn't a matter of going in just when farmers are not otherwise able to get credit. That is a very costly thing and the Farmers Home Administration, to some extent, is involved in this type of an operation, in the sense that its volume of business varies somewhat from time to time. The disaster loan program, for instance, expands during certain periods and contracts during others.

Another aspect of ours, however, that modifies considerably this aspect of competition which appears on the surface is the fact that Congress said to the farmers of the United States, we will make it possible for you folks to go in partnership with each other, join together, in cooperative credit associations, to provide yourselves this type of credit at a minimum of cost—and to render to yourselves a type of service that is best suited to your needs.

And the Federal Government provided the initial capital for this, but with the provision that as farmers used the system, they themselves would invest in the capital structure of these banks and associations and repay the Federal Government. And that has been the pattern.

The Federal land banks retired the last of their Government capital in 1947 and they are completely owned by their farmer borrowers.

The production credit associations which were capitalized in 1934, with $90 million of Government capital, have repaid all but $85,000 of that capital. The banks for cooperatives are retiring the Government capital with which they originally started.

So that is the pattern and I would say that the majority of commercial banks in rural areas, although admitting some competition and at times, expressing some feelings about it, for the most part, say they believe that these production credit associations and Federal land banks are a necessary adjunct to a successful agriculture.

Mr. ADDABBO. Is there any requirement before the Federal land bank can give a loan that the applicant first must go to a commercial bank?

Mr. TOOTELL. No; there is not, because they are not operating on Government money. This is a requirement of Farmers Home Administration which is a subsidized type of loan operation.

Mr. ADDABBO. Is the rate of interest charged by the land banks less than the commercial banks or are they usually about the same?

Mr. TOOTELL. I would say that it runs probably a little less than commercial banks charge. Ordinarily they don't make long-term real estate loans for, well, for nearly as long a time as the land banks. The principal institutional lenders on real estate are the insurance companies and I would say that their rates are very comparable with those of the Federal land banks.

Mr. ADDABBO. Thank you very much.

Mr. WHITTEN. Mr. Michel.

TRENDS IN SIZE OF FARMS

Mr. MICHEL. Governor, you made a statement that some current trends causing farmers to use more capital and credit are commercialization and specialization in agriculture and the larger size of farm operations.

To what extent is this going on?

Mr. TOOTELL. I would say to a very substantial extent.

The number of farms in the United States has been decreasing anywhere from 100,000 to 200,000 a year for many years now, and this is going to continue on. As the total number gets fewer, even at the same percentage decrease, you get a fewer number in the decrease each year.

But, I think this is going to continue for sometime until the great majority of our farming units are of an economic size to use modern machinery and technology to advantage efficiently. The remaining farms—or the other category, will be largely farms that have outside sources of income, part-time farmers or subsistence farms, and retirement farms.

Mr. MICHEL. I was very intrigued to give just a cursory look at some of the proposals that are being advanced in this so-called all-out war on property, where in some areas they are actually proposing to have the Government serve as an agent to buy up smaller inefficient units into one bigger unit and then in turn, parcel it out again in what the Government determines to be an economic unit.

Now, it just seems to me that kind of proposition is at cross purposes with what comes as a natural consequence in a free competition of supply and demand.

Mr. TOOTELL. Mr. Michel, let me give this explanation.

I would say that in the good agricultural areas of the United States, this sort of program proceeds without any stimulation at all on the part of the Federal Government. If I understand the program that you speak of, it was involved in the President's bill that was sent over to Congress, I believe the day before yesterday. This is focused in those areas of the country which progress and technology largely have bypassed, in poorer agriculture areas, where a farm family doesn't make enough and hasn't made enough overtime on their existing farm resources to accumulate capital that permits them to do these

other things, and that have very definite limitations as to how far they can go in mechanization.

As I understand it, another aspect of that program is pretty much of a social rather than strictly an economic thing. It is a matter of a conscious decision that some people who perhaps are too old to be retrained for work in industry and commerce, can with less expense socially and more satisfactorily be kept in rural areas even though they never will have during their lifetime an efficient and maybe completely self-sustaining farm.

But, making small grants to them, I believe this bill calls for grants up to $1,500 in some cases, and relatively small loans, if their quality of living can be increased by so doing, to a point where perhaps the relief burden is less, the direct payments to them in terms of relief is less. If they can be made more self-suporting, then this has merit.

But this will be in areas of the country where this other type of consolidation of farms hasn't proceeded to any great extent and probably won't from a strictly economic standpoint.

RELATIONSHIP OF FHA AND FCA

Mr. MICHEL. What is the Farm Credit Administration—do they have anything to do with Farmers Home Administration?

Mr. TOOTELL. Not organically. You see, organically we are not a part of the Department of Agriculture. We are an independent agency. We are housed in Agriculture on the same floor with Farmers Home and we have a fine working relationship with them. But, we have no organic——

Mr. MICHEL. Do you compete with them in any form?

Mr. TOOTELL. Well, I will say, categorically, no to that. The reverse of that problem, do they compete with us, is one that I would not say categorically no to, but that to a very minimum.

The Congress, in setting forth their loan authority, has said that they shall loan to folks who are not able to get credit from the traditional sources, from the co-op farm credit system and from commercial banks and insurance companies.

Mr. MICHEL. What would happen if you would absorb the Farmers Home Administration? Is that possible or feasible?

Mr. TOOTELL. No, I think it isn't feasible.

You asked the question, what I would think of the Farm Credit Administration taking over Farmers Home Administration, and I have no hesitancy in saying that I think the missions of the two are quite different.

Mr. MICHEL. How can you clearly set that apart? You can hear people who are not knowledgeable in the separation of the two as we would come to know it in the committee say, "Goodness, you have the Farm Credit Administration and Farmers Home Administration and now you are going to have a rural areas development credit proposition."

How many fingers do we have in the pie here in the name of credit to rural America?

Mr. TOOTELL. OK. Let me start by trying to define what we conceive our mission in the cooperative farm credit system.

In the first place, it is a cooperative farm credit system. And it is a self-supporting system except for the help which was given by the subscription of the Government to the basic capital.

And, incidentally, I want to point out that we pay a franchise tax on the use of this capital, which approaches the cost of money to the Federal Government.

Now, we are expected to operate this cooperative farm credit system in a manner that will render the greatest possible service to farmers, but at the same time be on a solid business basis so that it will be self-perpetuating. It is going to be here for another generation and we hope many more.

Now, this isn't the basic philosophy that is back of the Farmers Home Administration at all. As a matter of fact, part of the Farmers Home Administration at one time or another was a function of Farm Credit. It was transferred by the Congress to Farmers Home Administration. I speak of the emergency crop and feed loan program, for instance.

In other words, the disaster loan program of Farmers Home Administration now was once under the jurisdiction of Farm Credit Administration, as the emergency crop and feed loan.

The regional agricultural credit corporation programs, which were the agriculture part of the RFC, in the early thirty's, were given to the Farm Credit Administration to administer, and following the war, or perhaps still during the war—following the war I guess, Mr. Ritter, were transferred to the Farmers Home Administration.

Mr. RITTER. About 1949, perhaps.

Mr. TOOTELL. Now, as I understand it, the general philosophy of the Farmers Home Administration program is this: recognition on the part of the Congress that this is not a self-supporting program, but that there is justification certainly for emergency-type and disaster-type loans and then in addition to that, a program which will recognize that if you provide farmers with a management service along with credit, that you can go considerably further in lending than if this management service were not available. In other words, that this technical assistance program you might say substitutes in part for equity.

Mr. MICHEL. Yes.

Mr. TOOTELL. Now, over time, the Farmers Home Administration as I earlier said, its programs I think cannot be self-supporting unless possibly we continue to have inflation and if we have enough of that, why that would perhaps offset losses.

With our operation, however, we expect year by year to have a successful financial operation and to build this permanent system of operation.

I think their two functions are quite different, and I think they need to be administered by public officials with a, perhaps, different attitude.

Mr. WHITTEN. You mean the Farmers Home Administration could not afford to have a hardheaded banker at the head of it? Is that what you are saying?

Mr. TOOTELL. Mr. Whitten, I would say that, yes. I would say that I think it wouldn't accomplish the mission that Congress intended for it if——

Mr. WHITTEN. I was just trying to let you describe yourself.

Mr. TOOTELL. That is why I hesitated in the beginning, because I really don't consider myself quite in that category.

Mr. WHITTEN. You do a good job, we can agree on that.

RATE OF INCREASE FOR TOTAL FARM DEBTS

Mr. MICHEL. Governor, one final question. I see that total debts of farmers increased from $24.1 billion in 1960 to $30.5 billion at the end of 1963, which is a 25-percent increase.

Is that an alarming rate of increase, in your opinion? How does it compare with other overall increases in debt in other segments?

Mr. TOOTELL. Much more rapidly increasing, I would say than the total increase in debt or increase in debt in most other segments of the economy, and yet, I think that in the overall it is not particularly alarming.

Mr. MICHEL. Would it be fair to work into this justification for increased debt that there has been an increase in assets of farmers?

Mr. TOOTELL. It is up to $226 billion. I think this is pretty much a key to it or an important aspect of it, Mr. Michel. A test of it is really net worth, isn't it?

Mr. MICHEL. Right.

Mr. TOOTELL. Total farm debt, this $30.5 billion of farm debt, is only about 13½ percent of the total assets which farmers have.

Now, one can argue that some of these assets, particularly the land assets, are overvalued and even if this were true to some extent, you see, you have lots of cushion there. I would say back in the, well, 1940, it is my recollection that farmers didn't have more than—I would say that their debt was close to 50 percent of the value of their assets, you see.

So you look at it from that standpoint and this is not serious, and then you think about the reason for this rapid increase. It in large part is to finance this tremendous revolution that has taken place in agriculture in which, since 1950, the productivity per man in agriculture has increased one and one-half times as much as it increased in the entire first 50 years of the 19th century.

This has been done by a very heavy capital expenditure for machinery, technical know-how, fertilizer, and whatnot.

Mr. MICHEL. That is all.

Mr. WHITTEN. Governor, thank you again. We appreciate it very much.

I notice you refer to an increase in farmers assets and I heard you say that it might be a misnomer because it is largely an increase in land value.

Mr. TOOTELL. Yes, it is.

Mr. WHITTEN. The farmer can't sell it and can't eat it and has to keep it operating. All it means is he has to pay more taxes.

Mr. TOOTELL. This is true. I am one of those that has been quite concerned about this in the past, but here is what has happened: We have a sellers market in the farm real estate game in almost every part of the United States. Land market continues to go up, if a farmer is not making it, if he is losing ground, then he says well, "I am going to quit." He has no trouble at all in selling that farm to a neighbor or maybe a half-dozen of them will bid for it, if it is even reasonably good farmland.

Mr. WHITTEN. Gentlemen, we want to thank you once again for appearing before this committee.

THURSDAY, MARCH 19, 1964.

GENERAL ADMINISTRATION

WITNESSES

JOSEPH M. ROBERTSON, ADMINISTRATIVE ASSISTANT SECRETARY
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. We come now to General Administration. We have Mr. Robertson and Mr. Grant with us. I would like to have pages 76 through 103 of the justifications, volume III, included in the record.

(The material requested follows:)

PURPOSE STATEMENT

The Secretary of Agriculture, assisted by the Under Secretary, the Assistant Secretaries, and members of their immediate staff, directs and coordinates the work of the Department; formulates and develops policy; maintains relationships with agricultural organizations and others in the development of farm programs; and maintains liaison with the Executive Office of the President and with Members of Congress on all matters pertaining to legislation and policy to insure effective performance of the agricultural program.

The following activities are also included under General Administration:

Budgetary and financial administration is carried on by the Office of Budget and Finance, the staff agency with responsibility for functions relating to overall administration of the budgetary, fiscal, and related affairs of the Department. It provides leadership and coordination of these activities throughout the Department, including the acquisition and distribution of funds, accounting, budgetary and financial reporting, organization and management phases of budget and fiscal activities, and related matters.

General operations are carried on by the Office of Plant and Operations, a staff agency exercising general staff management direction of (1) the housing of the Department's activities, including technical services on design and approval of related construction projects; the leasing of commercial space and matters concerned with the management of real property, (2) procurement of supplies, services, and construction, including the awarding of contracts in amounts and for items not delegated to agencies; assists Department agencies in administering set-asides for small business firms and for firms in labor surplus areas, (3) supply and property activities, including storage, transportation, utilization, distribution, and accountability of personal property, administers the Department motor vehicle fleet management program, and (4) records, directives, reports, and attendant paperwork activities.

Management appraisal and systems development functions are carried out by the Office of Management Appraisal and Systems Development which was established by Secretary's Memorandum No. 1477 of December 8, 1961. The Office is responsible for the general direction, leadership, and coordination in the Department of management appraisals, systems designs, automatic data processing, operations research, and related management techniques.

Personnel Administration is carried on by the Office of Personnel, the staff agency with responsibility for the personnel management program of the Department. Department-wide leadership, supervision, and coordination are provided in organization, classification, and standards; salary and wage administration, examinations and employment; personnel and records security; standards of employee conduct; discipline; employee relations; appeals; employee development; health, safety and welfare; incentive awards; employee-management relations; personnel legislation; personnel research; employee fringe benefits; intergroup programs; and other personnel activities. The operational phases of this activity have been substantially delegated to the agencies. The Office coordinates a review program to evaluate the effectiveness of agency personnel programs and to advise and counsel these officials in the exercise of

their authorities within prescribed policies, rules and regulations of the Department and the Federal Government.

Regulatory hearings and decisions include the work of the Office of Hearing Examiners and of the judicial officer. The hearing examiners carry out the provisions of the Administrative Procedures Act relating to the holding of hearings (5 U.S.C. 1006, 1010). Hearings are held in connection with prescribing of new regulations and orders, and on disciplinary complaints filed by the Department, or on petitions filed by private parties asking relief from some action of the Department.

The judicial officer renders final administrative decisions in regulatory proceedings, and is responsible for preparing "Agriculture Decisions," a monthly publication containing decisions in connection with all quasi-judicial functions and administrative hearings of the Department.

The hearing clerk unit, which operates under the judicial officer, is responsible for receiving, filing and acknowledging the receipt of complaints, petitions, answers, briefs, arguments, and other documents filed with the Department of Agriculture in connection with quasi-judicial and administrative proceedings under various regulatory laws administered by the Department.

The National Agricultural Advisory Commission was established pursuant to Executive Order 10472, approved July 20, 1953, amended by Executive Order 10937, approved May 3, 1961. In its advisory functions, the Commission is concerned with the broad fields of agricultural policy and administration, both as they affect the U.S. farmer and the national economy. The Commission consists of 25 members, not more than 14 of whom shall be members of a single political party and at least 18 of whom shall be representative farmers from the several geographic sections of the United States. The Commission meets at the call of the Secretary of Agriculture at least once during each quarter of each calendar year. The Chairman of the Commission, in addition to attending each of the meetings, confers with the Secretary of Agriculture at least once a month to review the national agricultural policies and the administration of the farm program.

Available funds and man-years, 1963, and estimated, 1964 and 1965

Item	Actual, 1963		Estimated available, 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
General administration:						
Salaries and expenses	$3,102,858	267	$3,223,000	273	$3,372,000	275
Obligations under other USDA appropriations:						
For travel and other expenses of hearing examiners in conducting regulatory hearings	17,869	----	25,000	----	25,000	----
For travel expenses of the Committee on Agricultural Science	30,995	----	30,000	----	30,000	----
Reimbursable details of personnel to other agencies	31,118	2	7,500	1	7,500	----
Training, health, and other miscellaneous services for other agencies	13,537	1	30,536	4	30,536	2
Working capital fund:						
Centralized supply and duplicating services	2,071,283	143	2,078,525	153	2,077,025	153
Central personnel and payrolling operations under Mode	1,647,883	89	2,738,000	210	3,310,000	229
Employee training programs conducted by departmental staff offices	85,571	8	143,475	9	143,475	9
Total, working capital fund	3,804,737	240	4,960,000	372	5,530,500	391
Total, other USDA appropriations	3,898,256	243	5,053,036	377	5,623,536	393
Total, agricultural appropriation bill	7,001,114	510	8,276,036	650	8,995,536	668

Available funds and man-years, 1963, and estimated, 1964 and 1965—Continued

Item	Actual, 1963		Estimated available, 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
General administration—Continued						
Other funds:						
Assistance to ARA program (Department of Commerce)	$8,756	1	$9,000	1	$9,000	1
Acceleration of public works (Department of Commerce)	6,218		5,000			
Reimbursements for details of personnel	2,261		3,500			
Office of Emergency Planning	54,577	4	55,000	4	105,000	7
Health and other miscellaneous services	5,057		6,460		6,460	
Total, other funds	76,869	5	78,960	5	120,460	8
Total, general administration	7,077,983	515	8,354,996	655	9,115,996	676

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,339	2,643	2,828
	Positions other than permanent	15	7	7
	Other personnel compensation	20	35	25
	Total personnel compensation	2,374	2,685	2,860
12	Personnel benefits	173	200	208
21	Travel and transportation of persons	96	108	116
22	Transportation of things	5	3	3
23	Rent, communications, and utilities	62	61	65
24	Printing and reproduction	104	91	95
25	Other services	9	8	7
	Services of other agencies	60	60	58
26	Supplies and materials	40	39	37
31	Equipment	64	23	28
	Total obligations	2,987	3,278	3,477

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	292	285	296
Full-time equivalent of other positions	2	1	1
Average number of all employees	267	277	282
Employees in permanent positions, end of year	286	285	288
Employees in other positions, end of year	2	0	0
Average GS grade	7.9	7.6	7.4
Average GS salary	$7,533	$7,572	$7,396
Average salary of ungraded positions	$5,347	$5,369	$5,383

Salaries and expenses

Appropriation Act, 1964	$3,750,000
Activities transferred in the 1965 estimates to:	
"Salaries and expenses," Office of the Inspector General	−427,000
"Salaries and expenses," Office of Management Services	−100,000
Base for 1965	3,223,000
Budget estimate, 1965	3,372,000
Increase	+149,000

SUMMARY OF INCREASES, 1965

Increase for additional assistance to the Secretary in coordinating and administering the activities of the Department	+$58,000
For net increased costs of within-grade salary advancements	+34,000
For increased pay act costs (Public Law 87-793)	+57,000
Total increases	+149,000

Project statement

Project	1963	1964 estimate	Increases		1965 estimate
			Increased pay costs (Public Law 87-793)	Other	
1. Program and policy direction and coordination:					
(a) Office of the Secretary and Under Secretary	$456,830	$474,435	+$5,400	+$3,800	$483,635
(b) Assistant Secretaries	231,918	260,250	+2,100	+59,130	321,480
2. Budgetary and financial administration	640,298	724,130	+14,500	+10,255	748,885
3. General operations	657,650	706,805	+12,200	+6,685	725,690
4. Management appraisal and systems development	117,797	130,310	+3,100	+2,380	135,790
5. Personnel administration	671,558	699,650	+17,100	+8,830	725,580
6. Regulatory hearings and decisions	185,857	200,420	+2,600	+920	203,940
7. National Agricultural Advisory Commission	23,772	27,000			27,000
Unobligated balance	117,178				
Total increased pay act costs (Public Law 87-793)		(63,000)	(+57,000)		(120,000)
Total available or estimate	3,102,858	3,223,000	+57,000	+92,000	3,372,000

STATUS OF PROGRAM

1. Program and policy direction

The formulation and direction of policy and programs is carried out by the Secretary of Agriculture, the Under Secretary, the Assistant Secretaries, and directors, staff advisers, and related supporting staff. Under the direction of the Secretary, the immediate office of the Secretary exercises broad executive responsibility for the development of national agricultural policies and the general management of the Department of Agriculture, within the framework of laws enacted by the Congress and regulations promulgated by the President. It coordinates the activities of the Department's constituent agencies into a unified agricultural program, designed to achieve efficiently, effectively, and economically, the goals for American agriculture established by the Congress and the President. The Department's programs, in turn, are coordinated with the activities of other Government departments and agencies both in domestic and foreign affairs, to insure consistency in policies and methods in governmental administration.

In fulfilling these responsibilities and obligations, the immediate office of the Secretary provides general leadership and direction to the Department's constituent agencies. Agricultural policies and plans are formulated and adapted to the complex changing conditions in the Nation's economy. The progress of agricultural programs is continuously evaluated to insure that accomplishments are consistent with the Department's prescribed objectives and with established standards of sound management. Program and management problems with special significance and broad implications are given careful attention to assure their constructive resolution in a manner consistent with overall policy.

2. Budgetary and financial administration

The Office of Budget and Finance provides general direction, leadership, and coordination of the budgetary and financial aspects of USDA programs and activities. Major functional areas include the acquisition, distribution, and control of funds; accounting policies and systems; budgetary, financial, and legislative reporting; and staff services incident to advancement of financial administration throughout the Department.

(*a*) *Budgetary administration.*—This function involves the annual review and determination of fund requirements for the Department's programs. It is an integral part of the planning process essential to attain objectives meeting public needs. After the enactment of appropriations by Congress, continuing attention is directed to the apportionment and allotment of funds, special financing arrangements for cooperative undertakings, and financial reports of program status. Developments which have involved new or modified procedures include the following:

Improving methods for budgetary review: The Department conducts a continuing program to improve procedures and techniques for reviewing budgetary proposals. A "zero base" approach to the development and presentation of estimates in the Department was adopted on a trial basis in order to focus greater attention on total resources in relation to work programs. While the results of the experiment have not been completely evaluated, there have been some modifications in the type and content of budget presentations within the Department.

Management of program support costs: The cost of program support services to the operating programs in the Department is receiving more intensive study. Refined and up-to-date definitions of administrative and other program support activities are being developed to identify such services. The result should be improved and more complete reporting of the activities and better management of such costs in the Department. In the meantime, data now acquired for budget review purposes are being evaluated as to the types and amounts of program support demanded by direct program activities.

More effective manpower utilization: The Department has instituted a program to obtain the most effective use of manpower within the resources available. From the budgetary standpoint, this has called for a closer analysis of employment levels in relation to financial resources. Special effort is being made to introduce work measurement systems and other techniques for analysis of manpower productivity.

Manpower utilization has been made a specific issue in the budget review process. New program proposals (including the expansion or redirection of current programs) are being examined from the standpoint of whether Federal employment is essential or whether the work might be done more economically and as effectively by contract or cooperative arrangements. Further, more reliable reporting systems are being developed for relating program accomplishment to goals as related to manpower requirements.

Balance of payments: Activities which affect the balance-of-payments deficit have been reviewed. New reporting procedures will provide additional detailed information of the number and types of activities involving oversea payments or receipts. Based on the analysis of such data, positive steps can be taken to curtail those expenditures adversely affecting the balance of payments. In the meantime, departmental procedures have been established to require advance review of new activities which might add to the deficit. All agencies of the Department have been advised of the urgent need to examine carefully the level of their oversea operations.

(*b*) *Accounting systems improvement.*—Consultation on accounting matters is a continuous staff service rendered to Department agencies. This involves also liaison with the General Accounting Office, the Bureau of the Budget, and the Treasury Department to advance financial management objectives throughout the Government. Technical evaluations are made of USDA accounting and fiscal practices to promote improved services and effect operating economies. Projects are undertaken to resolve problems encountered in financial administration, including modifications or adaptations occasioned by ADP applications.

The following special studies were conducted:

ADP payroll system adjustments: Changes in accounting methods and procedure become necessary for conversion to centralized payrolling operations by use of automatic data processing equipment. An accounting system was developed for use by the Department's Data Processing Center.

Statistical sampling tested: Pilot tests of statistical sampling techniques in examination of vouchers prior to payment were completed. Evaluation of results showed that considerable savings in employee time could be achieved by use of this technique. Although a proposal for departmentwide use of statistical sampling was not approved by the Comptroller General, this study provided data necessary to support legislation that will be proposed to enable use of the statistical sampling in voucher examination.

Revised procedure for reimbursable services: Billing and collection practices in the central service operations of the Office of Information were revised. As a result, cash funds are being used more efficiently, thus enabling that Office to improve its authorized services.

Fiscal implications studied: Reports were prepared on several legislative proposals having fiscal implications. Among these were (*a*) requirements that Government travelers use the lowest class air accommodations available, (*b*) repeal of requirements for bonding certain employees, and (*c*) payment for movement of house trailers on change of station and for transporting privately owned automobiles on transfers to Alaska.

Legislative proposals initiated: Two significant legislative proposals were developed to improve financing methods throughout the Department. These were (*a*) authority to make advance payments and to transfer equipment to the Department's working capital fund in order to provide needed expansion in central services, and (*b*) authority to finance the costs of central services from one appropriation of an agency and later transfer the costs to benefiting appropriations.

(*c*) *Budgetary and financial reporting.*—Financial data on Department operations are compiled for administrative use and serve also to provide information requested from numerous sources. Reports are made responsive to requests from the Congress, farm organizations and trade associations, representatives of the press and other communication media, State officials, and the general public.

In addition to recurring reports submitted to the Budget Bureau, the Treasury Department, and other Federal agencies, special types of service in the past fiscal year included:

Public works reports: Statements providing information on public work activities of the Department including data on projects initiated under the accelerated public works program.

Employment data tabulated by States: Compilation of statement showing distribution of Department's full-time permanent and other employment by States, and including supporting data showing employment by Department agencies within the States and at specific locations.

Long-term trends analyzed: Preparation of statement on Department employment and changes in employment year-by-year since 1933 and indicating the major areas of change.

Geographic data on expenditures: Statements providing detailed information on funds used for Department activities at State, congressional district, and county levels, and involving, in some instances, a complete county distribution for funds used within a State.

(*d*) *Legislative reporting.*—The Department submits reports on proposed legislation, as requested, containing recommendations for consideration by the Congress. Similar reports are made on enrolled bills providing information for the President. Staff assistance in developing Department policy and coordinating such reports involves annual work volume as shown below:

Number of legislative reports

Fiscal year:	
1961	702
1962	464
1963	681

(*e*) *Committee management.*—USDA administrative regulations concerning committee activities were amended to provide as a matter of general policy that national public advisory committees be under the direction of an official from the Office of the Secretary as chairman, with an agency official as vice chairman. This action assures that committee recommendations will receive high-level consideration. Another revision in the regulations limits committee membership to 2-year terms to provide for rotation and wide representation among the trade, industry, or clientele groups involved.

At the beginning of the fiscal year 1964 currently authorized public adviser committees number 229, of which 55 were national committees while 174 were local or regional groups associated with field activities.

3. General operations

The Office of Plant and Operations is responsible for the general direction, coordination, and guidance of all phases of departmentwide programs in the fields of space, real estate, supply and property management, records manage-

ment, and departmental service operations in the District of Columbia. The following represent some of the more significant developments and accomplishments of the office:

(*a*) *New construction.*—There continues to be a substantial workload in the construction field. Several new buildings were approved for design or construction. It was also necessary to continue supervision of projects previously authorized. Thus, during the fiscal year the office was called upon to work both with the General Services Administration and agencies of the Department in the selection of private architects; review or approve plans; arrange for financing, including determination of proper fees and services both of the architect and of the General Services Administration; recommend award of construction contracts; and perform inspection during the progress of work or upon completion.

The following projects authorized during the fiscal year 1963 were placed under design or preliminary data was furnished to General Services Administration to permit award of design contracts:

Location	Nature of project	Limit of cost
Forest Service:		
Tempe, Ariz.	Hydrology Laboratory	$399,000
Alexandria, La.	Forestry Center	571,687
Warren, Pa.	Recreation and Wildlife Laboratory	227,800
Logan, Utah	Forest Science Laboratory	266,980
Madison, Wis.	Forest Products Laboratory, addition	3,344,400
(Construction contracts awarded for all of the above except the Madison, Wis., project.)		
Agricultural Research Service:		
Tucson, Ariz.	Bee Culture Laboratory	525,000
Byron, Ga.	Tree Fruit and Nut Research Station	456,500
East Lansing, Mich.	Poultry Disease Laboratory	400,000
Mandan, N. Dak.	Soil and Water Conservation Laboratory	355,000
	Projects authorized in previous years and still under design	
Agricultural Research Service:		
State College, Miss.	Poultry research	$363,420
Columbia, Mo.	Entomology Research Laboratory	374,000
Sidney, Mont.	Soil and Water Conservation Laboratory	391,000
Florence, S.C.	do	330,400
	Projects authorized in previous year and under construction	
Forest Service:		
Fairbanks, Alaska	Forest sciences	$304,800
Athens, Ga.	Research Laboratory	526,991
St. Paul Minn.	Forest Experimental Station Headquarters	1,132,300
Bluefield-Princeton, W. Va.	Utilization and Marketing Laboratory	348,000
Agricultural Research Service:		
Athens, Ga.	Poultry research	823,502
Twin Falls, Idaho	Soil Research Laboratory	734,000
Fargo, N. Dak.	Residue Laboratory	1,639,500
	Projects completed during the year	
Forest Service; Riverside, Calif.	Forest Fire Laboratory	$716,120
Agricultural Research Service:		
Auburn, Ala.	Engineering and Tillage Laboratory	315,240
Washington, D.C.	National Arboretum Administration	1,376,550
Gainesville, Fla.	Entomological Research Laboratory	783,705
Ithaca, N.Y.	Soils Laboratory	453,000
Bushland, Tex.	do	215,175

(*b*) *Disposition of property.*—As in previous years, the property determined no longer needed and sold or disposed of consists mainly of outmoded and outworn facilities. Prior to sale or other disposition, educational, public health, or public bodies were given a chance to acquire the property. During the year we disposed of 317 parcels of surplus real property which had a cost value of $653,615. For this we received a return of $23,917. In the same period we determined that real property costing $753,164 was not needed and preparations were made to dispose of it.

In addition to disposals by the Department under delegated authority the Department reported excess to its needs to the General Services Administration eight parcels of real property, having a total cost value of $65,208.

(*c*) *Acquisition of property.*—The Department acquired by transfer from other Government agencies 1,693.7 acres of land. Except for lands acquired as additions to national forests, and 947 acres at Mission, Tex., for screw-worm activities, reimbursement was made for the parcels at the rate of 50 percent of the appraised fair market value as required by General Services Administration's regulations.

(*d*) *Assignment and utilization.*—The issuance of Executive Order 11035 relating to a program of efficient space management in the Federal Government and the implementing regulations of General Services Administration required increased emphasis on the utilization of space. Because of these more stringent utilization requirements, a program has been inaugurated to revise the Occupancy Guides. This revision will also bring all Guides into uniformity of allocation of space for comparable positions.

(*e*) *Consolidated housing.*—Work continued on the consolidated housing of agriculture activities under Secretary's Memorandum No. 1492 of February 2, 1962. An inventory of the status of consolidation at the county level revealed that 1,258 counties out of the total of 3,093 agriculture counties in the United States and Puerto Rico were consolidated, as of September 1, 1962.

During the year considerable progress was made in achieving consolidation at county locations and many projects were underway at the year's end. A large part of the success of the program is to be accorded to the State administrative committees which consist of one representative of each agency which is located in the State. These administrative committees arrange for consolidation at the county level and for joint common services at State and county levels.

At the State level, consolidation was achieved through new leased construction at Alexandria, La., and Orono, Maine. In Syracuse, N.Y., a major upgrading of space was achieved for the existing consolidation. Other major consolidation projects in progress included San Francisco, Calif., awaiting completion of a new Federal building and the remodeling of the appraisers building; Denver, Colo., awaiting completion of the new Federal building; Indianapolis, Ind., bids for new space being evaluated at the end of the year; Salt Lake City, Utah, awaiting completion of a new Federal building.

(*f*) *District of Columbia activities.*—Work was virtually completed on the air-conditioning program of the agriculture group of buildings, leaving only the auditors building in which the Department had any sizable portion of unair-conditioned space occupied by office employees. Power shortage continued to prevent General Services Administration from air conditioning the balance of this building.

The major activity in the District of Columbia was arranging for the move of portions of Agricultural Research Service, Agricultural Marketing Service, and Soil Conservation Service to a new leased building at Hyattsville, Md. It had been anticipated that this building would be occupied before June 30, 1963; however, delays in construction postponed occupancy until after that date.

(*g*) *Real property reports.*—The reports on legislative jurisdiction over Federal land were compiled and submitted to the General Services Administration for the use of both the Department of Justice and the Congress in determining congressional action to provide for possible release to the States of exclusive jurisdiction not required by the United States.

The following tabulations were compiled from the regular reports on real property:

The Department has custody of 186,605,046.5 acres of land, of which 160,363,775.6 acres are public domain. The acquired land costs $192,430,000; the cost valuation of improvements on all lands totaled $1,141,390,000, consisting of 22,627 buildings (containing 21,332,799 square feet of space) and roads, trails, bridges, land improvements, etc.

The Department controlled at the end of the fiscal year 3,618 leases, which covered 2,859,669 square feet of space and 49,809.6 acres of land. The annual rental for all leases was $3,259,315. The Department again valued its public domain lands for use by the House Committee on Government Operations and the estimated current fair market value, exclusive of improvements, was $6,562,985,000.

(*h*) *Procurement, supply, and personal property management.*—Continuing effort was made to identify those areas where procurement and supply management emphasis would contribute to increased economy and efficiency. At the

same time, every effort was made to assure that only essential programs and activities were carried on. Identification techniques included (1) surveys of total agency procurement, contracting, supply, and personal property management policies and practices; (2) inspections of agency field offices; (3) review of agency procurement, supply activity, and motor vehicle reports; (4) analysis of commodity prices; (5) cost studies of Government owned versus privately owned vehicles used on official business, etc.

Supply management surveys of three agency headquarters offices at Washington, D.C., were made during the year to (1) appraise economy and efficiency of supply management programs, policies, and practices and to assist the agencies in making improvements where needed, and (2) evaluate the adequacy of departmental policy and procedures, by reviewing the effects on agency supply operations.

Inspections of 62 field offices of Department agencies were made during the year to (1) determine compliance with Department and agency supply policy, methods, and approved techniques; (2) simplify operations and eliminate paperwork; and (3) promote better manpower utilization.

Standardization of supply and vehicle reports.—Coordinated the cataloging activities of common supply items with the General Services Administration and Department agencies. This program is continuing.

A staff member served as departmental technical representative on standards and participated in the activities and meetings of Federal standards representatives sponsored by the General Services Administration. The office coordinated with the various Department agencies and the General Services Administration the development and review of Federal specifications and standards promulgated during the year.

A staff member participated during the year in an interagency working group sponsored by GSA for review of Federal supply schedules. The objective of the study group is to further simplify Federal supply methods and techniques and to effect economies wherever possible through development of standards and specifications as a base for securing more competition for the things we buy.

Studies were made on product performance and costs of a large number of office-type copying machine papers available under Federal supply schedule contracts. These studies resulted in the Department standardizing on the lowest cost papers, the use of which have and will continue to effect substantial economies.

Assistance was provided to Department agencies throughout the year in coordinating with the Procurement Operations and Standardization Divisions of GSA motor vehicle requirements deviating from established standards and specifications. A total of about 5,000 replacement vehicles were purchased during the year.

Agency annual motor vehicle reports were analyzed to determine (1) reasonableness of operating and maintenance costs, (2) compliance with acceptable utilization standards, and (3) fleet upgrading within established age/mileage replacement standards. Deviations from acceptable forms were reviewed with the agencies and action taken to assure a high degree of fleet readiness, efficiency, and economy of operation. The Department operates about 28,000 vehicles, exclusive of GSA interagency pool vehicles and commercial rentals.

Government owned versus privately owned vehicles. Initiated studies by certain agencies to determine the economic feasibility of using interagency motor pool vehicles in lieu of privately owned vehicles on a reimbursable basis for official business and arranged with GSA to provide pool vehicles for this purpose as the agencies determined their need therefor.

(*i*) *Excess property activity.*—The Department's excess property pool and the area equipment committees achieved utilization by the various agencies of personal property with an inventory value of about $383,400 that was declared excess by other Department agencies. The office also coordinated as necessary the Department-wide program of utilizing available excess of other Government agencies. Excess property thus obtained during the year amounted to about $24 million at original acquisition cost. Of this total, about $7.5 million was acquired by State forestry agencies cooperating with the Forest Service under the Clarke-McNary Act.

(*j*) *Equal employment opportunity activity.*—Active participation in the equal employment program in Government contracts program continued throughout the year. Office representatives worked with interagency groups to develop procedures for applying nondiscrimination provisions to indefinite quantity contracts, processing of compliance report data and implementation of the new

compliance report program for construction contracts. Four complaints of alleged discrimination by Department contractors were received and satisfactorily resolved.

(*k*) *Assistance to small business.*—In the area of assistance to small business, criteria for handling requests for class set-asides of construction contracts were developed. A review of the subcontracting program under Public Law 87–305 was made within the Department for the information of the Senate Select Committee on Small Business. Changes in small business size definitions and in the minimum size of procurement required to be publicized in the Commerce Business Daily were implemented in departmental regulations. The percentage of the Departments' procurements made from small business concerns increased from 65 percent to almost 80 percent over the past 7 years.

(*l*) *Contract activities.*—In the field of contract labor standards requirements, departmental regulations were revised to reflect the enactment of the Contract Work Hours Standards Act and related issuances of the Department of Labor. Participated in proposed revisions by the Secretary of Labor of his regulations on contract labor standards. Nine cases of alleged labor standards violations were investigated and reported to the Department of Labor. Assistance was rendered to Department agencies in developing guidelines for application of Federal departments to contracts made by State and local agencies for work financed in whole or part with Federal funds.

The office handled four appeals to the Secretary from contracting officer's decisions. This involved arrangement for appointment of boards of contract appeals by the Secretary, scheduling of board meetings, and otherwise coordinating the conduct of the hearings.

A project was begun on a system of integrating Department regulations and the Federal Procurement Regulations, which will provide prompt implementation of the Federal Procurement Regulations, Department-wide, in the most effective and economical manner. This work project is continuing.

Technical assistance was provided to Department agencies throughout the year on a wide range of problems, such as disputes with contractors, complaints by unsuccessful bidders, procurements and property disposals in foreign areas, ocean transportation, interpretation of applicable procurement and property laws and regulations, defaulting contractors, and coordination of interagency administrative support activities.

Assistance was provided to the Foreign Agricultural Service in negotiating design contracts and in developing and awarding construction and service contracts for international trade fairs held at Amsterdam, Holland; London and Manchester, England; Munich and Cologne, West Germany.

Office staff participated in the training of contracting officers by coordinating four contract negotiation institutes sponsored by the U.S. Department of Agriculture Graduate School and through participation in Forest Service training meetings at Chicago, Ill., and Denver, Colo.

(*m*) *Microfilming.*—The office began to exercise surveillance of agency microfilming operations, which are believed to cost more than $100,000 yearly. A departmental procedure was installed which requires approval of agency headquarters, and review by the Office of Plant and Operations, to compile inventories of owned or rented microfilming equipment and of all microfilming projects. A showing of microfilming equipment was arranged for agency officials and the office-sponsored Paperwork Management Council presented a program outlining the advantages and disadvantages of modern microfilming.

(*n*) *Forms.*—During the year 53 new Department forms were issued, 5 were revised, and 1 was dropped. At the end of the fiscal year there were 282 Department forms in use. The office reviewed all forms before issuance and assisted staff offices in promulgating and revising Department forms whenever help was needed.

A new chapter on forms management was completed and published in the Department regulations. An index of standard and Department forms was added to the chapter as an exhibit which indicated for each form the sponsoring staff office, a new feature.

(*o*) *Records management.*—Five offers of records to the National Archives were accepted and the records transferred to that agency. Eleven schedules (or plans) for the retention and disposal of agency records were reviewed, cleared with the General Accounting Office, and approved by the National Archives and the Congress. When requested by the Soil Conservation Service, the office surveyed mail handling and records maintenance practices in the Of-

fice of the Administrator. A number of suggestions for improvement were made and accepted by the Administrator's Office.

The office cooperated with the Office of Records Appraisal, National Archives and Records Service, in initiating a program of identifying all of the permanently valuable records of the Department.

(*p*) *Reports management.*—The Office of Plant and Operations, in consultation with agency representatives, developed a proposed departmental regulation establishing a Department-wide reports management program. The program's objectives, as reflected in the regulation, are—

To improve the quality and usefulness of information used in managing the various programs of the U.S. Department of Agriculture; and

To achieve improvements and economies in reporting, including that affecting the public.

The regulation establishes the management and critical review and evaluation of reports as departmental policy. As a second step to improve the quality of reporting, the Office of Plant and Operations is developing a handbook which will amplify the information contained in the regulation.

(*q*) *Directives writing improvement.*—The records management staff developed and conducted a series of sixteen 1-day writing improvement workshops. Two hundred and sixty-eight writers from Washington headquarters offices were trained in techniques to improve the writing of policies and procedures.

4. Management appraisal and system development

The Office of Management Appraisal and Systems Development provides general direction, leadership, and coordination in the Department for management appraisals, systems design, automatic data processing, operations research, and related management techniques. The Office initiates appraisals of operating procedures, directs task force studies of systems having Department-wide implications and provides technical guidance and assistance to agency officials in planning and developing management policies, programs, and systems to achieve maximum effectiveness and economies. The Office also operates the Department's management data service center at New Orleans, which is responsible for the centralized payroll and related personnel and fiscal operations in the Department. The nature of the work of the Office is such that accomplishments and benefits for the most part occur in the agencies, where the work is actually performed and not internally in the Office. Following are some of the accomplishments resulting in whole or part from Office efforts in the past year.

(*a*) *Development of the departmental MODE program.*—The primary efforts of the Office in the past year have been directed toward the continued development and installation of the MODE system. The logic for the system has been essentially worked out, and most of the detailed computer programs for the payroll system have been prepared. Pilot payroll runs—utilizing the computer programs—were processed in the past fiscal year with complete conversion to the centralized payroll anticipated during the calendar year 1964.

Many of the immediate benefits from the MODE program will result from consolidation of the 87 Department payroll offices into the one centralized payroll office in New Orleans. This consolidation—plus systems improvements with the use of automatic data processing—is expected to result in substantial savings and improvements. The integration of the payroll data with other personnel and accounting data will provide more timely, accurate, and comprehensive information for managers and supervisors in the Department.

(*b*) *Management improvement project systems.*—A Department-wide effort to achieve economies and improve operations was initiated in the previous fiscal year. In October 1962 this effort was formalized in the Department-wide management improvement project system. This system, under the central coordination of the Office of Management Appraisal and Systems Development, documents significant management improvement efforts planned, underway, or completed in the Department. Information from this system is used to plan, direct, coordinate, and measure progress on management improvement efforts in the Department, and information on accomplishments is disseminated for possible application of principles and techniques by other agencies of the Department.

A total of 484 proposals were developed during this initial effort with others advanced since that time. Over 150 projects have been completed with over 200 in active status. Others were consolidated, withdrawn, or appropriate action was taken. Three reports on progress in management improvement in the Department were made in the past year. The reports highlighted major manage-

ment improvements on both a Department-wide and internal agency basis. The basic purpose was to disseminate information on principles and techniques of management improvement for application to other agencies and staff offices in the Department. Extensive interest was also exhibited by other Departments and the Bureau of the Budget, as well as the Congress in various management improvement applications reported.

(*c*) *Information retrieval system.*—A task force continued a study into the feasibility of developing a mechanized information storage and retrieval system for the National Agricultural Library. The tremendous proliferation of technical and scientific literature in recent years has made the researcher's task much more difficult. Next to the scientists and technicians, the availability of information is the most important factor in research. With conventional methods of indexing materials a great deal of valuable time is spent in just gaining access to the needed material.

The study is about 60 percent complete and preliminary findings indicate that mechanization of information retrieval would improve service in two areas—in the processing of magazines, bulletins, and scientific journals, and in production of the Bibliography of Agriculture.

(*d*) *Management appraisal—Office of Information.*—A task force composed of employees from several staff offices and agencies of the Department, under the leadership of the Office of Management Appraisal and Systems Development, conducted a survey of administrative processes and operating procedures of the Office of Information. Recommendations were made on improved organization structure and on improved procedures in the current information, publications and audiovisual activities, as well as the working relations between the Office of Information and agency information staffs.

(*e*) *Department computer centers.*—Three Department computer centers were established by the Secretary on July 31, 1962. The centers at New Orleans, La., and Kansas City, Mo., are under the management of the Agricultural Stabilization and Conservation Service. The consolidation resulting in the Washington Computer Center—under the management control of the Statistical Reporting Service—resulted in an immediate annual savings of approximately $55,000 through elimination of duplicate equipment and combining of administrative direction and supervision. Other benefits expected to be achieved include better utilization of both data processing equipment and staff skills and capabilities, better scheduling of work, and making possible the use of more efficient large scale computers. The Office of Management Appraisal and Systems Development is responsible for coordinating data processing needs of other agencies with the computer centers, and for the review and appraisal of the effectiveness of all data-processing center operations. A review of the operations of the Washington Computer Center was conducted by the Office.

(*f*) *Utilization of ADP in the Department.*—In addition to coordination of computer centers, the Office has general responsibility for leadership in establishing departmentwide policies in development and operations of data processing systems. Reviews are made of ADP contracts to assure full utilization of Department facilities, and coordination and arrangements are made for use of computers in other Federal departments. Extensive evaluations are made of the relative benefits and costs of lease versus purchase of computers in the Department. Reviews are also made of existing and potential areas of data processing applications to assure maximum benefits at lowest costs. This includes thorough examination of both the data processing system and the various types of computers and other ADP equipment offered by the equipment manufacturers. The Department has found it beneficial to purchase its large scale computers and has recently exercised its option to purchase an IBM 1620 used by the Forest Products Laboratory at Madison, Wis. Department policy and practices are consistent with recommendations of a recent GAO report on computer operations in the Federal Government.

5. Personnel administration

The Office of Personnel provides general liaison, direction, leadership, and coordination of the personnel management program of the Department. This program includes: organization; classification and standards; salary and wage administration; examinations and employment; personnel and records security; standards of employee conduct; discipline, employee relations; appeals; employee development; health, safety, and welfare; incentive awards; employee-management relations; legislation; personnel research; employee fringe benefits; intergroup programs; and other personnel activities. The Office promulgates

departmental policies and procedures relating to these functions; it delegates specific personnel authorities to agency officials; advises with and counsels these officials in the exercise of their authorities within prescribed policies, rules, and regulations of the Department and the Federal Government; and coordinates a review program to evaluate the effectiveness of agency personnel programs. It also serves as the liaison office on matters of personnel administration with all Government or private agencies concerned with the work of the Department.

Among the significant developments during the past year and future plans are:

(*a*) *Adjusting to a changing scene.*—Changes brought about by technology affect the management of the Government's manpower resources in many ways, two of which are especially pertinent to the Department:

(1) Technology is causing rapid changes in farming and the mode of living in rural communities. Most every function which the Department performs is affected. In some cases new attitudes and philosophies have to be developed. New knowledge and skills are needed by most employees.

(2) Changing technology also poses for those who manage the Department's business a special challenge. New jobs have to be established. Employees with new and different qualifications must be recruited. Employees have to be taught new skills. More data is needed in a shorter time as a basis for decisions.

The Office of Personnel has, during the past year, taken positive steps to not only stay abreast of the demands on personnel management but to stay ahead through planning, research, and the use of technology.

(*b*) *Cooperative planning.*—The 132 recommendations of the 1961 personnel policy review meeting are still very much a stimulus. More than 75 of these recommendations have become a part of the written policy and procedure of the Department.

(*c*) *Annual planning.*—Annual projected work plans were developed for each project and function of the Office. The year's experience with this system has led to improvements in "Projected Work Plans for Fiscal Year 1964." A change in format is expected to save time and paperwork. These work plans, to the degree possible, integrate with the steps normally required; the needs for follow-up on the recommendations of the 1961 personnel policy review meeting; the recommendations from reviews and inspections; and intermediate steps needed for reaching the long-range goals. Copies are distributed to those agency officials who profit from knowing about the Office's activities or might synchronize their own plans with them.

(*d*) *Inspection coordination.*—Agencies have been required to submit plans for inspections and evaluation to the Office by August 1 each year. This places more responsibility for review and evaluation on the agencies, but at the same time provides better coordination of inspection and reviews by the Office.

The first nationwide inspection of the Department's personnel activities by the Civil Service Commission indicated that the personnel management programs were effectively contributing to mission accomplishment.

(*e*) *Defense mobilization.*—To better prepare employees to survive should a civil defense emergency occur, the Office took the following steps: A series of lectures were held for Washington, D.C., employees describing radiation hazards and protective measures; issue to all employees a wallet-sized leaflet, "Survival Self Helps," containing pertinent survival information; and a circular, "Tips," was issued to all employees to inform them about radiation fallout. Copies were requested by State and Federal agencies and foreign governments. It has been reprinted by two Federal agencies.

(*f*) *Employee-management cooperation.*—Regulations for implementing Executive Order 10988 were issued. As an aid to those administering the program, a staff paper was issued, "Employee-Management Cooperation—Questions and Answers."

A USDA Employee-Management Cooperation Council, organized in November, meets quarterly to consider broad questions of personnel policy. A staff report, "USDA Employee-Management Cooperation Council," was issued in December.

Five organizations representing 31,000 USDA employees and ASCS Committees have been accorded exclusive or formal recognition under Executive Order 10988. The first arbitration case came to a hearing June 13–14.

Another precedent action was exclusive recognition for AFGE Lodge No. 1940 at Plum Island Animal Disease Laboratory.

Twenty-seven thousand copies of "Tips to Supervisors on Employee-Management Cooperation" were issued.

(*g*) *Position classification, pay management, and occupational standards activities.*—In anticipation of the passage of the Federal Salary Reform Act, the Office asked the agencies to identify their most urgent needs and submit recommendations for positions that might become available at the GS–18, GS–17, and GS–16 levels. Concurrently, the Office developed internal classification guides for the evaluation of agency recommendations. A special Office task force made an intensive review and evaluated 265 supergrade positions.

Eighteen occupational standards projects were completed; some of the more important were for—

Meat and poultry inspectors	3,784
Economists	694
Farm management loan positions	2,379
Personnel clerical and assistance positions	267

(*h*) *Examination and employment.*—The Office participated in interagency meetings to assure that the Department's needs were met through examinations for jobs common to Federal agencies, and served in a liaison capacity on other departmental matters.

The Department's Board of Examiner system was changed to place the responsibility for and much of the servicing in those agencies having the primary need for the eligibles.

Guideline standards were issued for summer employment, and 564 students from 39 States were employed in 12 agencies.

Approximately 1,800 candidates were interviewed and referred, 2,300 responses were made to mail inquiries about employment and an additional 2,300 inquiries were responded to by furnishing appropriate publications.

A recruiting brochure, "Opportunities for Employment in USDA," was revised and 8,700 copies distributed.

Reports on a sampling of 250 recruitment visits are being studied to learn ways of improving recruiting procedure.

The USDA recruitment exhibit was used at seven college career days.

A staff paper, "Appraisal—Key to Manpower Utilization," and "Tips to Supervisors—Requirements for Within-Grade and High-Quality Step Increases" were issued to assist agencies with performance evaluations.

The Office gave direction to the employment and orientation of 85 young people under the Washington Action for Youth (WAY) program.

The Office actively participated in developing procedures for employment under the Public Works Acceleration Act.

(*i*) *Employee development.*—Delegation in administering the Training Act, Public Law 85–507, has reduced the paper flow by about 95 percent. Coordination of interagency training is being accomplished through "TOP" (training opportunity program), a newsletter, seminars, and other management training programs. A method of evaluating management training is being developed through research tied in with management training programs. Eight 5-day Kepner-Tregoe Decision Making sessions, seven seminars in Executive Development, and two seminars in Middle Management were sponsored by the Office.

The Department intern program placed 20 interns in the agencies after an intensive recruitment campaign which included a review of over 200 files. Emphasis was placed on developing supervisory competence in the Department by issuance of "Developing USDA Managers," a program developed by a Department task force; 10 issues of "Tips to Supervisors" were issued to 26,000 supervisors and officials; and constant follow-up with the agencies.

Departmental orientation was facilitated through issuance of 163,000 copies of the revised employee handbook (also used in recruiting); 20,000 copies of a set of charts for supervisors' use on "Guide to Understanding the USDA"; four Washington area orientation meetings for 1,678 new employees; and 9 orientation tours of the office for 100 agency employees.

The Office sponsored four Department telecommunication training sessions for 1,800 employees; two sessions on modern mimeographing techniques for 800 secretaries; and three 2-day advanced secretarial institutes for 139 secretaries.

The USDA-Land Grant Universities Joint Committee met for 1 half-day session in November and a 2-day meeting in April. This committee continues to be a valuable means of maintaining contacts with the land grant institutions on personnel matters.

The Office assisted with a pilot course in North Carolina for training ASCS county office managers.

(*j*) *Health.*—The 1961 personnel policy review meeting recommended, "The Department take steps aimed at providing, at Federal expense, health maintenance examinations of key employees and of those employees subjected to unusual hazards." The Office has, through its medical officer, encouraged officials to safeguard their health by having periodic physical examinations.

The following is a statistical summary of the employee health efforts during the first 11 months of fiscal year 1963.

Services rendered by Department health units

	Number of cases
Use of Washington metropolitan area health units	31,957
Use of six health units outside Washington	24,140
Cases referred to Public Health Service, home, or hospital	585
Emergency or service calls to scattered office locations (Washington)	97
Patients seen by Department medical officer (Washington)	442
Blood donations received	1,699
Polio, tetanus, and flu shots administered	9,130
Chest X-rays	5,776
Orientation groups on health conducted	3
Examinations made for disability, oversea assignments, visual and hearing efficiency, preemployment, and others	865
Consultations with supervisors and personnel officers regarding employee health problems	300

The Department medical officer participated as a lecturer in seven meetings on health and related subjects.

Issued Agriculture Handbook No. 227, "First Aid Guide for USDA Employees." About 90,000 copies ordered by agencies. Slightly revised and sent to GPO for second printing and stocking for purchase.

(*k*) *Safety.*—The Department was nominated for the President's Award and while it did not win first place, the honor is significant. This recognition reflects the active interest and concern which agencies of the Department have for providing safe working conditions.

Twenty major changes were made in a revision of Department regulations. Plans are being made to include accident reporting in MODE (ADP) by January 1964. The USDA Safety Advisory Committee continues to assist by reviewing and advising on policy, standards, and guides.

This Office has maintained an aggressive educational campaign on safety. Some activities were: issued 30,000 copies of an "Office Safety Guide" for use in 10,000 Department offices; issued 90,000 copies of a "First Aid Guide for USDA Employees"; distributed 8 different "safety exchange packets" of material primarily prepared by the agencies; and issued "Safety Signals," leaflet on each of 30 pertinent safety topics.

(*l*) *Welfare.*—The need for preretirement counseling was met by: conducting a series of 6 lectures with an average attendance of 500; 33,200 kits consisting of 6 publications on retirement planning are being prepared.

Employment of the handicapped was promoted by issuance of a "Tips to Supervisors" on "Hiring the Handicapped" and through "Coordinators" in each agency with delegated employment authority.

Fifteen USDA clubs were organized, bringing the total to 42. The Department's welfare officer initiated and maintained service on numerous functions and other activities.

(*m*) *Incentive awards program.*—The 17th annual honor awards program held at the Sylvan Theater honored 6 employees with distinguished awards and 85 with superior service awards.

A task force made its final report on four of the personnel policy review meeting recommendations for improvement of the program.

Delegated to agencies authority to approve cash awards up to $1,500 except for grades 14 through 18.

Special honors: Miss Verna Mohagen, Chief, Personnel Division, SCS, received the Federal Woman's Award. Dr. Sherman E. Johnson, Deputy Administrator,

Delegated to agencies authority to approve cash awards up to $1,500 except for Distinguished Federal Civilian Service.

(*n*) *Policies and procedures.*—Title 8: Personnel, of the Department's administrative regulations, was revised to conform with, and become a part of, the Federal Personnel Manual by slipsheeting. This eliminated approximately 3,600 lines of printed regulations. This slipsheeting system was also adapted to the

Disaster Administrative Regulations. The chart governing prior approvals was simplified and consolidated. The letter of authorization employment procedure was eliminated. The personnel policy statement, 8 AR, chapter 1, was revised and issued. The Office handled 330 personnel notices and changes in regulations. Also, 40 issues of "Latest Management Notes of OP" (LMNOP).

(*o*) *Systems and statistics.*—Training guides were issued for ADAM application under the MODE program. A process was developed practically eliminating the need for submission of job descriptions on AD–332 for ADAM. A survey of needs to develop a skills inventory phase of MODE was initiated. The Office prepared 131 recurring and special employment reports.

(*p*) *Case reviews and grievances.*—47 grievance appeals (1 involved a formal hearing) and 1,289 prior approval actions were handled. The prior approval control sheet, AD–67, was revised to give new justification data required to support recommended actions.

(*q*) *Organization.*—A master organization and classification incumbency control chart for key positions was established. A new AR chapter was issued on "Organization Planning and Control," setting standards and guidelines to assist agencies. The Office took part on task forces which studied possibilities for consolidating common service activities, organizational problems of the Department, and the development of employee appraisals programs. Reviewed and recommended approval of 84 new or revised functional organization charts.

(*r*) *Disciplinary and appeals process.*—The new Department appeal system, the appointment of about 225 hearing officers, and the conduct of 12 training sessions for hearing officers were significant accomplishments. A "Hearing Officers Manual, USDA," "Guide for Hearing Committee Members Conducting Hearings on Employee Appeals," and "Extracts of Judicial Decisions Relating to Appeals" were issued. Nineteen appeals were received and 15 hearings were conducted under the new appeal system. Approximately 1,100 actions taken by agencies under new delegated authorities were received for postaudit. The Office handled 23 cases through March which were beyond the authority delegated the agencies.

(*s*) *Security process.*—Arrangements were made for the Civil Service Commission to screen results of national agency check and inquiries requests and submit direct to agencies those cases which do not contain reports. Even with this procedure, this Office reviewed and referred to agencies over 1,500 cases as compared to 1,012 processed last year. A memorandum, "Conduct on the Job," was issued to all employees. 8 AR, chapter 13, was revised to include suitability requirements. The Office assisted with the revision of standard form 68, "Statement of Pecuniary Interests and Outside Employment," which resulted from the President's memorandum issued May 2.

(*t*) *A summary of workload for certain types of actions*

Item	Fiscal years	
	1963	1962
Total security clearances issued	[1] 938	664
Security clearance actions processed	980	778
Security clearances canceled	532	491
Investigation reports returned to CSC	300	403
Clearance certifications to other agencies	1,500	1,441
Foreign travel and international conferences	900	758
FBI name checks	550	837
Advisory Committee name checks	1,000	1,083
Training Act clearances	222	123
Security considerations, FBI (209 on hand)	[2] 45	75
Security violations	18	20
National agency checks and inquiries	[3] 1,500	1,012
Disciplinary actions:		
Postaudit of actions under delegated authority	[3] 1,100	335
Cases processed by this Office	[3] 27	78
Suitability determinations	1,145	(4)
Appeals under Department appeals system	18	(4)
New cases received in Office	2,500	2,717

[1] Approximately 40 of these clearances were based on investigations conducted for another department or agency. This saved USDA approximately $14,000.
[2] Decrease in completed cases because of conduct of appeals training courses by staff members.
[3] Further delegation of authority made to agencies.
[4] Not available.

6. Regulatory hearings and decisions

This activity includes the work of the Office of Hearing Examiners and the functions of the judicial officer and his staff.

(*a*) The Office of Hearing Examiners holds hearings, makes reports, recommends decisions, and performs such related duties as may be required by the Administrative Procedures Act and the statutory provisions, regulations, and rules of practice applicable to matters under their jurisdiction. A comparison of the number of hearings held by the hearing examiners under the various acts is shown in the following table:

Laws involved	Fiscal years				
	1959	1960	1961	1962	1963
Agricultural Marketing Agreement Act, 1937	51	74	65	82	65
Commodity Exchange Act	6		2	3	1
Packers and Stockyards Act	43	14	6	14	9
Perishable Agricultural Commodities Act	3	2		3	8
Sugar Act	3	2	1	2	2
Anti-Hog Cholera Act	3		1		
Agricultural Marketing Act, 1946		1	1	2	
Forest Service Appeals	8	5	4	1	4
Agricultural Adjustment Act, 1938	1				
Tobacco Inspection Act	4		2	3	
Total	122	98	82	110	89

Packers and Stockyards Act.—Hearings were held during the year in a number of proceedings under the Packers and Stockyards Act involving many important legal issues. Two such proceedings were against multiple respondents including some of the largest packers and grocery chains in the Nation, who are charged with collusive action and restriction of competition in the procurement of live and dressed lambs. In one case the grocery chain respondents raised a basic and and novel issue by contending they are not packers and, therefore, are not subject to the jurisdiction of the Secretary of Agriculture. This is one of the most important and far reaching enforcement cases brought against packers under title II of the act.

Agricultural Marketing Agreement Act.—A large number of rule making proceedings under the Agricultural Marketing Agreement Act have been conducted in various parts of the country. These hearings related to proposed new marketing agreements and orders and, also proposed amendments to existing marketing agreements and orders. Three regional joint rulemaking amendment hearings involving a fundamental pricing problem common to all milk marketing orders then in effect, were held in three places in the Nation, centrally located so as to result in the least inconvenience to the participating producers and handlers of milk involved.

A number of hearings have also been held in proceedings instituted under section 8c(15)(a) of the Agricultural Marketing Agreement Act of 1937, as amended, by petitions filed by handlers seeking to be relieved from obligations imposed upon them by rules or orders promulgated under that act. Many of these proceedings involve claims of improper interpretation and application of milk order provisions by various market administrators. Another such proceeding was brought by a group of handlers in San Joaquin County, Calif., seeking to have that county exempted from the nine-county production area covered by the order regulating the handling of central California grapes for crushing. This petition presented some new and difficult legal problems.

Forest Service appeals.—The hearings on appeals to the Chief of the Forest Service from decisions of regional foresters including an appeal relating to a proposed grazing agreement between the Forest Service and a cooperative grazing district in South Dakota and involved the national grasslands. This is the first such hearing since the administration of these grasslands was transferred to the Forest Service.

(*b*) The judicial officer serves as a final deciding officer, in place of the Secretary, in regulatory proceedings of a quasi-judicial nature where the applicable statute requires a hearing. These include cases in which a hearing examiner files a recommended decision and also reparation proceedings under the Perishable Agricultural Commodities Act and the Packers and Stockyards Act which are not subject to the hearing-examiner provisions of the Administrative Procedures Act. Exceptions to a hearing examiner's recommendations may be filed by any party to the proceeding, and oral argument is available before the judicial officer before the preparation and issuance of the final decision and order.

The judicial officer acts directly without reference to a hearing examiner upon applications to dismiss petitions and applications for interim relief by petitioning handlers under section 8c(15)(A) of the Agricultural Marketing Agreement Act and upon stipulations for consent orders under the Packers and Stockyards Act, the Commodity Exchange Act, and the Perishable Agricultural Commodities Act. The judicial officer also rules directly upon matters arising in proceedings such as motions to dismiss that are certified by the hearing examiners without recommendations. A comparison of the number of decisions and orders issued under the various acts is as follows:

Laws involved	Fiscal years				
	1959	1960	1961	1962	1963
Agricultural Marketing Agreement Act, 1937	27	23	28	18	25
Commodity Exchange Act	21	15	10	5	12
Grain Standards Act		1			
Packers and Stockyards Act	106	127	135	190	241
Perishable Agricultural Commodities Act	351	456	483	404	378
Total	505	622	656	617	656

Packers and Stockyards Act.—There were several cases of unusual interest and importance decided under the Packers and Stockyards Act. In one case, *In re St. Paul Union Stockyards Company,* the first contested rate proceeding in approximately 20 years, after an extensive hearing in which 5,660 pages of transcript and 167 voluminous exhibits were adduced, the theory of ratemaking in connection with rates and charges to be assessed for stockyard services was brought up to date. The historic utilization by the Department of a reproduction new less depreciation rate base and also a trended book cost rate base were rejected in favor of a split inventory rate base for the valuation of a stockyard structure which method accepts the last valuation of stockyard property in 1938 as a starting point and values additions since that time at cost. Such formula reflects and adopts the change in ratemaking philosophy begun in *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U.S. 591 (1944).

In addition, the rate of return allowed was greater than that issued in the basic rate order in 1940 to reflect increased competition with resultant greater risk to common stockholders and more emphasis on earnings price ratios of

stockyard companies, as distinguished from dividends price ratios, to determine the cost of equity capital. Numerous new and controversial subsidiary issues were decided. Another proceeding under the act, *In re Capitol Packing Company et al.*, involved livestock marketing practices of two large packers and a market agency in the Denver, Colo., trade territory, including the Denver stockyard and country feedlots, and the interrelationship of the various respondents. The close relationship between a packer respondent and the market agency respondent was found to be violative of section 202 (a) and (b) by the packer and section 312(a) by the market agency in view of the fact that the market agency is a fiduciary on behalf of sellers of livestock and the packer is the purchaser of such livestock. Additional practices were found to be violative of the act, but numerous charges, including charges grounded in antitrust law, were dismissed by reason of failure of proof or lack of jurisdiction. Petitions for reconsideration have been filed.

Agricultural Marketing Agreement Act.—Novel and significant rulings were made in a case under the Agricultural Marketing Agreement Act, *In re Lawson Milk Company.* Lawson was a partially regulated handler under the Cleveland milk marketing order and as such had made so-called compensatory payments to the producer-settlement fund for 5 years. Thereafter Lawson filed a petition under the act to recover the payments on the ground the order provisions requiring the payments were invalid. The petition was denied by the judicial officer. This ruling was upheld by the U.S. District Court for the Northern District of Ohio and an appeal was taken to the U.S. Court of Appeals for the Sixth Circuit. While the appeal was pending the U.S. Supreme Court struck down similar order provisions in the New York-New Jersey milk marketing order. The sixth circuit remanded the *Lawson* case to the district court for reconsideration in the light of the Supreme Court's ruling on the New York-New Jersey order. The district court then held the Cleveland order provisions invalid but remanded the case to the judicial officer for rulings on the Department's defenses of estoppel and a bar to recovery of the payments sought by virtue of a 2-year limitation period in the order for the assertion of claims by handlers under the order. The judicial officer ruled that laches and delay on the part of the handler barred recovery of payments except for those made within the 2-year limitation period and he also ruled that the handler was not entitled to recover interest upon the amount of payments refundable.

Commodity Exchange Act.—Under the Commodity Exchange Act several decisions and orders were entered involving accommodation trades and noncompetitive trading by floor brokers "at the close" in the May 1960 wheat future on the Chicago Board of Trade.

WORKING CAPITAL FUND, DEPARTMENT OF AGRICULTURE

The Working Capital Fund is an operating fund without fiscal year limitation established by an appropriation of $400,000 in the 1944 Agricultural Appropriation Act (Public Law 78–129) to finance the costs of certain centralized service operations pending reimbursement for such costs. In accordance with the statute, activities are financed under the fund only when approved by the Bureau of the Budget. As of June 30, 1963, assets of the fund amounted to $1,880,000, liabilities were $759,000, and the Government's equity was $1,121,000 comprised of the $400,000 initial appropriation, $533,000 in donated capital and $188,000 in retained earnings.

Obligations by activities for the central services financed through the Working Capital Fund, are as follows:

	1963 actual	1964 estimate	1965 estimate
1. Supply and other central service programs:			
Central supply, reproduction, and miscellaneous services	$2,091,586	$2,100,000	$2,100,000
Civil defense and defense mobilization programs	16,695	18,500	18,500
Interagency management development programs	29,495	66,100	66,100
Subtotal	2,137,776	2,184,600	2,184,600
2. Photocopy and microfilming services	42,534	42,000	46,800
3. Motion picture, photographic, and other visual information services program:			
Motion picture, photographic, arts and graphics, and exhibits services	1,614,000	1,595,000	1,614,000
Publication of Department periodical (USDA)	31,000	32,000	33,000
Subtotal	1,645,000	1,627,000	1,647,000
4. Automatic data processing services program: Centralized automatic data processing system for payroll, personnel, financing, and other services	1,703,959	2,815,400	3,487,400
Total obligations	5,529,269	6,669,000	7,365,800

Responsibility for providing the central services financed through the fund has been assigned as follows:

Office of Plant and Operations:

Central supply services, including stationery, supplies, equipment, forms, and local laundry service.

Duplicating services, including printing and reproduction, binding, addressing and mailing, and related services.

Communications services, including local telephone and switchboard service, leased wire service, interdepartmental dial system service, and telegraphic and teletype services.

Assistant to the Secretary for Defense Mobilization Planning:

Operations of the Department's relocation headquarters, periodic civil defense exercises, and conduct of survival training courses.

Office of Personnel:

Conduct of interagency management development programs, including the seminars in middle management and seminars in executive development programs.

National Agricultural Library:

Supplying photocopy and microfilm reproductions of library materials.

Office of Information:

Motion and sound picture services.

Still photography services.

Arts and graphics.

Exhibits.

Publication of departmental employee periodical, "USDA."

Office of Management Appraisal and Systems Development:

Development and operation of departmentwide automatic data processing services for payrolling, personnel reporting, and related financial accounting and reporting operations (MODE).

General Statement

Mr. Whitten. Mr. Robertson, you may proceed in your own way.

Program and Policy Direction and Coordination

Mr. Robertson. Mr. Chairman, I am very glad to be here with you to talk about General Administration in the Department of Agricul-

ture. You have before you a functional organizational chart of the activities under this item.

(The chart referred to follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE

General Administration
Functional Organization and Budget Estimate Chart
Fiscal Year 1965

PROGRAM AND POLICY DIRECTION

The work of the Department of Agriculture is supervised and directed by the Secretary of Agriculture who is assisted by a staff consisting of an Under Secretary, three Assistant Secretaries, a Director of Agricultural Economics, a Director of Science and Education, an Administrative Assistant Secretary and immediate office aides.

FUNCTIONS: This staff develops overall policy in accordance with applicable laws, develops and recommends programs for the welfare of American Agriculture; supervises and coordinates the agricultural agencies and programs; participates in international activities involving food and agriculture; provides general administration of the Department; and serves as liaison with the Congress, other Governmental agencies and the public.

NET AVERAGE ANNUAL POSITIONS 45.7
APPROPRIATION REQUESTED $790,115

BUDGETARY AND FINANCIAL ADMINISTRATION

FUNCTIONS: Exercises over-all coordination and supervision of budgetary and financial affairs of the Department, including the acquisition, allotment and apportionment of funds, accounting, financial reporting, organization and management of budget, fiscal and related activities; formulates and issues Departmental policies and procedures; clears legislative reports; and serves as liaison with Budget Bureau; General Accounting Office, Treasury Department, Appropriations Committees, and other agencies concerned with the Department's budget and finance activities.

NET AVERAGE ANNUAL POSITIONS 65
APPROPRIATION REQUESTED $748,885

GENERAL OPERATIONS

FUNCTIONS: Exercises over-all coordination and supervision of real and personal property, and supply management; formulates and promulgates departmental policies and procedures; paperwork activities and administrative issuances and related activities; performs departmental service operations in the District of Columbia, including the post office, telephone, telegraph, reproduction and supply services.

NET AVERAGE ANNUAL POSITIONS 70.2
APPROPRIATION REQUESTED $725,690

MANAGEMENT APPRAISAL AND SYSTEMS DEVELOPMENT

FUNCTIONS: Exercises coordination and direction of the development of new and improved management techniques, acquisition and utilization of data processing equipment, development of methods of measuring the effectiveness of program operations, and the application of operations research techniques to the administrative program and scientific activities of the Department.

NET AVERAGE ANNUAL POSITIONS 8
APPROPRIATION REQUESTED $135,790

PERSONNEL ADMINISTRATION

FUNCTIONS: Administers for the Secretary the personnel management activities of the Department. These activities include position classification, job evaluation, salary and wage administration, organization, recruitment, examination, placement, retirement, separation, leave, safety, health, employee relations, personnel and records security, performance ratings, training, and incentive awards programs; serves as liaison on matters of personnel administration with all governmental or private agencies concerned with the work of this Department.

NET AVERAGE ANNUAL POSITIONS 69.7
APPROPRIATION REQUESTED $725,580

REGULATORY HEARINGS AND DECISIONS

FUNCTIONS: The hearing examiners hold hearings, make reports, recommend decisions, and perform related duties as required by statutes, regulations, and rules of practice applicable to the various matters under their jurisdiction. The judicial officer renders final administrative decisions in regulatory proceedings of a judicial or quasi-judicial nature; has responsibility for preparation of the "Agriculture Decisions".

NET AVERAGE ANNUAL POSITIONS 15.7
APPROPRIATION REQUESTED $203,940

NATIONAL AGRICULTURAL ADVISORY COMMISSION

FUNCTIONS: Review national agricultural policies and the administration of farm programs and make recommendations to the Secretary of Agriculture for the betterment of such policies and programs.

APPROPRIATION REQUESTED $27,000

Mr. ROBERTSON. Program and policy direction is the first activity shown on the chart. The Secretarial direction, so to speak, of the Department is included there.

This committee is full aware, I am sure, of what this staff does. This is the policy staff to carry out the laws applicable to the Department of Agriculture. In connection with that, there are various staff offices that work with the Secretary's staff in implementing and in carrying out policies in the Department across agency lines throughout the Department of Agriculture.

OFFICE OF BUDGET AND FINANCE

Budgetary and financial administration, for example is carried out in Mr. Grant's office. This is the organization that works on the budget materials that this committee uses, that the Congress uses, materials for the Bureau of the Budget, helping to develop the budget in the Department, the general financial management in the Department.

OFFICE OF MANAGEMENT APPRAISAL AND SYSTEMS DEVELOPMENT

Directly below that is a small shop of 8 people, the Office of Management Appraisal and Systems Development. The purpose of this staff is to enable us to try to do a better job in managing the Department of Agriculture, to take advantage of economies and improvements that might come along.

REGULATORY HEARINGS AND DECISIONS

Down below that, on the left of the page, is the regulatory hearings and decisions. This is the Office of Hearing Examiners and the judicial officer of the Department. There are five hearing examiners in the Department at the present time. These are the men who hold hearings relative to rulemaking and regulatory decisions in the Department.

OFFICE OF PLANT AND OPERATIONS

Going down the righthand side of that chart, there is a block called general operations. This is Mr. Mangham's operation in the Department. This has to do with the supply operations, real and personal property, and administrative service at the Secretarial level.

OFFICE OF PERSONNEL

Below that is personnel administration. This is the Department Personnel office that coordinates personnel policy with the agencies. It is a coordinating staff more than an operating staff.

Each of the agencies has its own personnel staff. This is the central personnel staff which works with problems relating to personnel management in the Department generally.

NATIONAL AGRICULTURAL ADVISORY COMMISSION

Then there is the item for travel expenses of the National Agricultural Advisory Commission. This Commission is made up of 25 people, a Presidential Commission, no more than 14 of whom may be members of the same political party.

1965 BUDGET REQUEST

In our estimate before this subcommittee, sir, for 1965, a request for $3,357,000. This includes a reduction of $15,000, submitted in House Document 240, from the $3,372,000 request at the time this budget was submitted. This represents, Mr. Chairman, an increase of $134,000 over 1964, $57,000 of the $134,000 is for Pay Act costs in the Office of the Secretary and these other offices mentioned here, $34,000 is for within-grade promotion costs in these offices. This comes about because there is a relatively small, fairly stable staff in each one of these offices where there isn't as high a degree of turnover as you get in a larger and different type operation. There is a program increase of $43,000. This is for two additional people, one at the grade 18 level, Director of Science and Education, and estimated personnel benefits of $1,500.

There is an assistant to one of the Assistant Secretaries and these two positions, plus the personnel benefits, Pay Act costs, and so on, make up the $43,000 increase.

INCREASE IN MAN-YEARS

Mr. WHITTEN. I notice you have increased personnel: 1963, 510 people man-years; 1964, 650 man-years; and next year, man-years estimated would be 668.

What is the basis for that constant climb?

Mr. ROBERTSON. Mr. Chairman, you are looking on page 78, I guess, sir.

Mr. WHITTEN. Yes.

Mr. ROBERTSON. A part of this, as you see, is in the working capital fund for centralized supply and duplicating services where there is an increase of 10 from 1963 to 1964, and stable in 1965. The bulk of the increase is in the central personnel and payroll operations. This is the operation where we are shifting to a centralized basis for the payroll of the Department of Agriculture, rather than preparing payrolls in individual agencies and offices, sir, and as we get more people coming under that system it is necessary to increase the staff. You will see in 1963, when we had very few people under the system, we had 89 man-years; and as we went to 1964, we had more people under the system, so there was an increase to 210, man-years, and we now show an estimated increase of 19 man-years to a total of 229 in 1965. We are estimating that by the end of fiscal year 1965, we will have around 110,000 people in the system, sir. That is the bulk of the increase.

Mr. WHITTEN. Do you have corresponding decreases in man-power in these other places to offset this?

Mr. GRANT. Yes, sir. The reductions have been made in other areas. You may recall that in the 1964 budget, we proposed reductions totaling 241 man-years and $1,354,200. The reduction in funds was accomplished in the 1964 Appropriations Act. As of this time, we have reduced 221 man-years in payroll offices.

Mr. WHITTEN. Do you have a table showing personnel and funds by program and office under this general administration for 1963, 1964, and 1965 for the record?

Mr. GRANT. Yes, sir.

(The material requested follows:)

General administration—Analysis of man-years and available funds, fiscal year 1963, 1964, 1965

	1963 actual		1964 estimate		1965 estimate	
	Man-years	Amount	Man-years	Amount	Man-years	Amount
Secretary and Under Secretary	30.0	$456,830	28.7	$474,435	28.7	$483,635
Assistant Secretaries	12.6	231,918	15.0	260,250	[1] 18.0	[1] 321,480
Budgetary and financial administration	60.8	640,298	66.0	724,130	65.0	748,885
General operations	70.6	657,650	70.0	706,805	70.0	725,690
Management appraisal and systems development	7.8	117,797	8.0	130,310	8.0	135,790
Personnel administration	69.4	671,558	69.7	699,650	69.7	725,580
Regulatory hearings and decisions	15.7	185,857	15.7	200,420	15.7	203,940
National Agricultural Advisory Commission		23,772		27,000		27,000
Unobligated balance		117,178				
Total	266.9	3,102,858	273.1	3,223,000	275.1	3,372,000

[1] The amendment to the 1965 budget in H. Doc. 240 reduced this estimate from $321,480 to $306,480 with an estimated reduction in man-years from 18 to 17.

AUTOMATIC DATA PROCESSING

Mr. WHITTEN. My attention is called to the fact that the GAO report criticized the automatic data processing operation. I have been on the Defense subcommittee for many years. The Defense Department has been paying extremely high rental for much of this very complicated equipment.

Now that we have paid fully what the equipment is worth, they want to buy it. The question was raised before that committee, now that we have paid for it in rents, as to whether or not the minute the Government buys it they will turn around and come out with some later equipment.

What has been your experience with processing equipment?

Mr. ROBERTSON. The bulk of the equipment that we have in the Department, and we can supply detailed listing of all of it if you are interested for the record, is in the Agricultural Stabilization and Conservation Service. They have a large center at Kansas City, Mo., an operation at Evanston, Ill., and another operation in the Commodity Office, the Cotton Office, at New Orleans, La., sir. These are are biggest installations that we have in the Department.

The computer in New Orleans was bought some time ago by the ASCS. I am not sure whether they own the ones in Kansas City or Evanston or not.

Mr. GRANT. They own the computers at Kansas City. They are renting the one at Evanston.

Mr. WHITTEN. Could you supply for the record the total amount of rentals that were being paid where they were rented heretofore, the amount paid for them, the life expectation of the equipment you have, and what effect if any the machines have had on the required manpower.

In addition to that, if there are other benefits in addition to manpower costs, you might spell that out.

Mr. ROBERTSON. We will be happy to do that.

(The information requested follows:)

COMPUTERS OWNED BY THE DEPARTMENT

AGRICULTURAL RESEARCH SERVICE

1. Plant Industry Station, Beltsville, Md.
2. Peripheral equipment purchased for use in conjunction with rented IBM 1620 computer:
   (*a*) IBM 1621 paper tape reader installed September 1962.
   (*b*) IBM 1622 card read punch installed January 1962.
3. Total rental paid from installation date to acquisition date was $14,942.33.
4. Components purchased on May 1, 1963 as follows: 1621 and 1622 units, $32,992.
5. Life expectancy when acquired: 9 years (estimate).
6. Benefits: The use of a computer and statistical analysis of research data will free the scientist of the time required to make such analysis assuming that he has the technical knowledge to do this work himself. This permits him to accomplish more research. The fact that scientifically trained programers are available in the computer laboratory, who are technically trained to understand the application of statistical analysis of research data, assures that appropriate reduction of data is obtained. Moreover the use of a high speed computer permits more complete evaluation of research data than would be possible by the use of a desk calendar.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

A. 1. ASCS Commodity Office, New Orleans, La.
2. IBM 705 III, installed July 1959. Two IBM 1401's, installed January 1964. One IBM 1401, installed July 1961 (purchased new).
3. Total rental paid from installation date to acquisition date was $1,747,000 (estimated).
4. Components purchased as follows:

IBM 705 III, June 1961	$1,894,742
2 IBM 1401's, January 1964	543,588
1 IBM 1401, July 1961	254,670
Total	2,693,000

5. Life expentancy when acquired, 10 years (estimate).

B. 1. ASCS Commodity Office, Kansas City, Mo.
2. UNIVAC II, installed July 1962. IBM 1401–1922, installed December 1962. UNIVAC Block Buffer Printer, installed July 1962. IBM 1401, installed March 1962. IBM 2074, installed February 1963 (purchased new). IBM 1401, installed February 1963 (purchased new).
3. Total rental paid from installation date to acquisition date $280,000 (estimated).
4. Components purchased as follows:

UNIVAC II, November 1962	$200,000
IBM 1401–1922, December 1963	285,824
UNIVAC Block Buffer Printer, September 1963	25,000
IBM 1401, April 1963	235,699
IBM 7074, February 1963	1,516,325
IBM 1401, February 1963	262,471
Total	2,525,319

5. Life expectancy when acquired, 10 years (estimate).

C. Benefits:
1. An example of the effect of automation on manpower is in the Kansas City Data Processing Center.

In the first step, it was planned to centralize certain loan and inventory accounting in Kansas City because of the availability of high speed data processing equipment. Budget estimates for fiscal year 1964 indicated that this move would reduce ASCS manpower requirements by 187 man-years or $1,500,000.

In the second step, it was found that by centralizing loan and inventory accounting, ASCS was able to consolidate most of its grain management activities from five grain commodity offices into two grain commodity offices. This

permitted further reductions in manpower requirements. These reductions are reflected in the fiscal year 1964 budget for ASCS amounting to an additional 248.8 man-years, or $2,225,000.

Therefore, during the current fiscal year these two moves reduced manpower requirements by 435.8 man-years or $3,725,000. Centralizing grain management without the aid of high speed computers would have imposed large and cumbersome manual accounting operations on one location. Economic, rapid handling of transactions would have been difficult to maintain.

2. Since the adoption of electronic data processing equipment to ASCS operations, substantial savings have been realized in a number of areas.

In New Orleans for instance, it has been found that cotton can be invoiced prior to the end of the month in which it was sold, with the aid of high speed data processing equipment. The early invoicing saved Commodity Credit Corporation 1 month's storage charges for owned cotton during calendar year 1963. Commodity Credit Corporation thus saved $395,000.

The preceding example of savings and storage costs is a recent illustration of the cost benefits that can be realized with the use of electronic data processing equipment. ASCS is able to offer for sale commodities that enter its inventory at a much earlier date than would be the case if it were relying on manual or strictly mechanical means for preparing lists of commodities available for sale. The earlier commodities can be offered for sale, the earlier they can be sold. The earlier they leave inventory, the less interest and storage charges must be paid for the money that is tied up in inventory and for the storage space rented. One of the best illustrations of what this can mean in actual price occurred for the first time in New Orleans a few years ago. Cotton entering inventory was cataloged and offered for sale at the end of July when Commodity Credit Corporation took title to it. The earlier mechanical and manual means of cataloging cotton required several months after the July acquisition. During the delay CCC paid interest, storage, and insurance charges. In the first year of preparing catalogs with the aid of electronic equipment, costs were more than $4 million less than what they would have been had mechanical and manual methods continued to be used for preparing cotton catalogs. The early preparation of catalogs is continuing.

Less easily measured benefits have accrued to ASCS from the use of high speed electronic computers. A great deal more information is available at an early date. Management thus has more information available that can affect decisions. All information is available at an early date.

Recordkeeping, too, has been simplified. Work that formerly was assigned to nearly 3,000 county offices is now handled in two offices with the aid of computers. Records formerly needed for managing grain inventories in five offices are now maintained in two places with the aid of computers.

Benefits accrue likewise to producers and businessmen from faster service available with electronic data processing equipment.

The budget for Commodity Credit Corporation administrative expenses has already been reduced by the amount of savings accrued to date.

FOREST SERVICE

1. Forest Products Laboratory, Madison, Wis.
2. IBM 1620 computer, installed January 1962.
3. Total rent paid from installation date to acquisition date was $28,040.50.
4. Computers purchased on June 1, 1963, as follows: 1620–1622 unit with special devices Nos. 1632, 1021, 1285, and 4650, $79,506.47.
5. Life expectancy when acquired, 10 years (estimate).
6. Benefits: There has been a material increase in productivity of the scientists. A considerable increase in workload has been conducted without increase in manpower. Scientific effort has increased in depth and capability to perform highly complicated research, including numerical and statistical analyses.

MANPOWER CEILINGS

Mr. WHITTEN. Mr. Grant, I know the Department is faced with a number of problems. One is that the Congress was so very late last year in making funds available for the present fiscal year. You had operated under a continuing resolution which we all understood had

some complications, especially when you get a House bill and then later a Senate bill and first one thing and another.

Subsequent to that, however, you have had manpower ceilings imposed on you by direction of the Bureau of the Budget. We have dealt with that as we have come to the various agencies that appeared before us.

I would like for you, for the record, to tell us what you were faced with and how the Department attempted to allocate these reductions in manpower for the present fiscal year, as well as the way they were taken into consideration in fixing the amounts for the coming year.

Mr. GRANT. Yes, sir. For several years now, we have been estimating and reflecting in the budget estimates, end of year employment, that is, employment as reported in Civil Service Commission reports at the end of each fiscal year.

At the time we received our budget allowances for 1964, initially, in late November, we were given a target for end of year employment for the Department in one lump-sum figure.

This target was lower than we had originally projected, so in order to accomplish it, we worked with each individual agency of the Department. The Office of Budget and Finance has been given the responsibility for working out the detailed allocation of the total figures, and we have been working with the agencies to accomplish this.

So far, we have received very good cooperation from the agencies and there have been very few instances where we have had to make a further reduction below that which the agencies voluntarily agreed to make.

Subsequent to that initial adjustment, we were requested to make a review of the budget and of the employment situation to see whether or not further reductions could be made. This was done on December 18, and in that connection, the Department reported that adjustments, if they had to be made, could be made in certain areas with less harm to the Department than in others, and indicated the reductions in employment which went along with these adjustments.

These total reductions in employment for June 30, 1965, totaled 4,710.

Then, in late December, the Department was again requested to make another review and to come up with lower targets on employment and reductions in funds.

Mr. WHITTEN. Am I correct that, as of now, these directives require you to count employees as manpower units, under your ceiling? Where other agencies or States or other people provide the funds for you to employ people, those people are counted in your ceiling?

Mr. GRANT. Yes, sir; they are. These employment ceilings apply to all employees holding Federal appointments regardless of the source of funds. And, as a matter of fact, in one instance, the employees of the milk marketing administrators, who are paid entirely by assessments against the milk handlers, are included in our ceiling figures.

Mr. WHITTEN. Does that complete your statement?

Mr. GRANT. I want to make this one additional point.

We were requested to make further adjustments in January, including reductions in employment for June 30, 1964. Additional reductions of 743 were made for 1964 and 283 for 1965.

These ceilings have been given to us in terms of the total number of employees and the number in permanent positions; so, in effect, we have two different ceilings for each agency.

We have tried to be as equitable as we could in allocating this among agencies. We do have freedom to make adjustments and as the year progresses, as we find a need in one agency and can shift from another agency, we can work out shifts within the Department. We intend to do so in order to make the reductions as small a burden on every agency as we possibly can.

Mr. WHITTEN. We have had for some years, either in law or by way of understanding, an agreement that you would have up to a 7 percent transferability of funds within the broad titles of the Appropriations Act. That still exists, does it not?

Mr. GRANT. Yes, sir; the 7 percent interchange authority applies to shifts between funds within an agency. We do not have authority to go across agency lines.

Mr. WHITTEN. That 7 percent wouldn't help you to meet this manpower problem unless it was within the same agency?

Mr. GRANT. That is true.

Mr. WHITTEN. Now the manpower ceiling, however, that has been imposed on you by the Bureau of the Budget makes no effort to tie it down to agencies. So the Department would have a right to shift funds and people within agencies and funds within an agency to the degree you mention?

Mr. GRANT. That is right; we can do that. And, as a matter of fact, if we have a problem, or problems arise, I anticipate that we can make presentations to the Budget Bureau and, in turn, to the President to get the ceiling increased. We haven't tried to make such a case.

Mr. WHITTEN. In case of an emergency, you would have that right of appeal.

Any further questions? If not, we wish to thank you for your fine presentation, Mr. Robertson. Mr. Grant has been with us throughout the hearings and does a fine job of helping us to keep things straight. He does a fine job for the Department, too, because he makes his presentation clear and to the point.

Mr. GRANT. Thank you.

Mr. WHITTEN. Thank you very much.

Mr. ROBERTSON. Mr. Chairman, may I thank you. As a friend of mine said about going to church, he didn't go to church to ask for things, and in this case, we haven't. He goes to church to thank folks for things they have been given.

I say to you, sir, on behalf of the Department of Agriculture, we thank you, all of you.

Mr. WHITTEN. Thank you, sir.

THURSDAY, MARCH 19, 1964.

OFFICE OF MANAGEMENT SERVICES

WITNESSES

JOSEPH M. ROBERTSON, ADMINISTRATIVE ASSISTANT SECRETARY
CHARLES F. KIEFER, DIRECTOR, OFFICE OF MANAGEMENT SERVICES
GEORGE WALDMAN, CHIEF, BUDGET BRANCH, DIVISION OF BUDGET AND FINANCE, OFFICE OF MANAGEMENT SERVICES
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. We turn now to the Office of Management Services, and we have Mr. Robertson, Mr. Kiefer, Mr. Waldman, and Mr. Grant.

At this point in the record we would like pages 65 to 75 of the justifications included in the record.

(The pages referred to follow:)

OFFICE OF MANAGEMENT SERVICES

PURPOSE STATEMENT

The Office of Management Services was established by Secretary's Memorandum No. 1529, dated January 29, 1963, to provide management support services for certain agencies and offices of the Department. These management support services include budget, accounting, and related financial management services; information services; personnel; organization and related services; and procurement, property, space, communications, messenger, paperwork management, and related services. This consolidation of management support services was made to provide greater economy and effectiveness, improved utilization of manpower and management techniques, increased specialization of professional skills, and more extensive use of timesaving equipment.

These services are provided for the Office of the Secretary, Office of Budget and Finance, Office of Hearing Examiners, Office of Management Appraisal and Systems Development, Office of Personnel, Office of Plant and Operations, Office of Rural Areas Development, Office of Information, National Agricultural Library, Office of the General Counsel, Office of Inspector General, Farmer Cooperative Service, Commodity Exchange Authority, Cooperative State Research Service, Economic Research Service, Statistical Reporting Service, and Office of Management Services.

Available funds and man-years, 1963, and estimated, 1964 and 1965

Item	Actual, 1963		Estimated available, 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Office of Management Services:						
Salaries and expenses	$2,366,975	304	$2,541,200	298	$2,527,000	294
Obligations under other USDA appropriations: Management support services related to Department-wide supply, duplicating, data processing, and other services carried out by agencies served by OMS under the working capital fund	99,982	15	107,000	18	208,500	28
Total, agricultural appropriation bill	2,466,957	319	2,648,200	316	2,735,500	322
Other funds: Management support services related to—						
Special economic studies performed by the Economic Research Service for other agencies on a reimbursable basis	94,604	10	81,400	10	80,600	9
Special crop and livestock studies and data processing services performed by the Statistical Reporting Service for other agencies on a reimbursable basis	104,216	12	101,600	12	92,500	11
Miscellaneous reimbursable services for other agencies	44,204	4	50,300	6	44,400	6
Total, other funds	243,024	26	233,300	28	217,500	26
Total, Office of Management Services	2,709,981	345	2,881,500	344	2,953,000	348

PROPOSED TRANSFER IN THE 1965 BUDGET ESTIMATES

The Office of Management Services (OMS) was established by the Secretary of Agriculture on January 29, 1963, pursuant to Reorganization Plan No. 2 of 1953. OMS consolidates the management support services formerly carried out by several offices and agencies of the Department.

The specific management support services assigned to the Office of Management Services are as follows:

(*a*) Budget, accounting, and related financial management services.

(*b*) Information services.

(*c*) Personnel, organization, and related services.

(*d*) Procurement, property, space, communications, messenger, paperwork management, and related services.

The specific services and scope of services provided for each agency are determined by the particular needs of each agency.

The budget estimates for the fiscal year 1965 propose a direct appropriation to the Office of Management Services. This appropriation is in lieu of funds here-

tofore transferred from the offices and agencies served. In the fiscal year 1964 these funds were made available from the following sources:

Cooperative State Research Service: Payments and expenses	$205,000
National Agricultural Library: Salaries and expenses	100,000
Economic Research Service: Salaries and expenses	662,200
Soil Conservation Service, transfer to Economic Research Service:	
Watershed protection	33,000
Flood prevention	3,000
Resource conservation and development	4,000
Statistical Reporting Service: Salaries and expenses	680,600
Farmer Cooperative Service: Salaries and expenses	141,800
Commodity Exchange Authority: Salaries and expenses	42,000
Office of the General Counsel: Salaries and expenses	268,000
Office of Information: Salaries and expenses	50,000
General Administration: Salaries and expenses	100,000
Office of the Inspector General: Allotments from the following agencies:	
Agricultural Research Service: Salaries and expenses	4,000
Extension Service, cooperative extension work: Payments and expenses	2,000
Soil Conservation Service:	
Conservation operations	3,000
Watershed protection	2,000
Flood prevention	300
Great Plains conservation program	200
Agricultural Marketing Service:	
Marketing research service	6,000
Special milk program	4,000
School lunch program	10,000
Removal of surplus agricultural commodities and Perishable Agricultural Commodities Act fund	35,100
Foreign Agricultural Service: Salaries and expenses	2,000
Federal Crop Insurance Corporation: Administrative and operating expenses	3,000
Rural Electrification Administration: Salaries and expenses	2,000
Farmers Home Administration: Salaries and expenses	22,000
Forest Service: Forest protection and utilization	11,000
Agricultural Stabilization and Conservation Service: Expenses	58,000
Commodity Credit Corporation:	
Administrative expense limitation	67,000
Other (corporate fund)	20,000
Total	2,541,200

The proposed direct appropriation for the Office of Management Services is not intended to cover expenses for management support services to activities of the agencies served which are not financed through direct appropriations available to those agencies. To the extent that agencies serviced by OMS perform work for other Government agencies or private organizations, and receive funds from those sources, the necessary management support related to such work would be financed from the same sources. Funds received from such sources are expected to amount to $340,300 in fiscal year 1964 and include—

(*a*) Funds advanced by the Department of Commerce to carry out certain activities pursuant to the Area Redevelopment Act.

(*b*) Funds advanced by the Agency for International Development to finance training, technical consultation and support, and special project activities.

(*c*) Reimbursements for services performed for other agencies other than those receiving management services from OMS.

(*d*) Collections from fees and charges for services performed for non-Government agencies.

(*e*) Working capital fund which finances on a reimbursable basis certain central services in the Department of Agriculture.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,172	2,258	2,322
	Other personnel compensation	29	46	35
	Total personnel compensation	2,201	2,304	2,357
12	Personnel benefits	162	169	174
21	Travel and transportation of persons	23	35	45
22	Transportation of things		1	2
23	Rent, communications, and utilities	48	61	62
24	Printing and reproduction	67	99	100
25	Other services	17	22	22
	Services of other agencies	103	105	105
26	Supplies and materials	44	55	56
31	Equipment	43	31	30
	Total obligations	2,708	2,882	2,953

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	339	360	368
Average number of all employees	345	344	348
Employees in permanent positions, end of year	315	352	358
Employees in other positions, end of year	0	0	0
Average GS grade	6.6	6.6	6.6
Average GS salary	$6,457	$6,685	$6,738
Average salary of ungraded positions	$3,534	$3,799	$3,799

Salaries and expenses

Appropriation Act, 1964	
Transfers from other funds and base for 1965	[1] $2,541,200
Budget estimate, 1965	2,527,000
Decrease	−14,200

SUMMARY OF INCREASES AND DECREASES, 1965

Increased management services related to expanding programs of agencies served	+45,000
For increased pay act costs (Public Law 87–793)	+47,000
Reduction to reflect estimated savings due to centralized management support services for agencies served	−106,200
Net decrease	−14,200

[1] Includes $122,100 representing obligations in 1964 under permanent appropriations and corporate funds. A direct appropriation in 1965 is requested for activities now carried out under allotments from other funds.

Project statement

Project	1963	1964 (estimate)	Increases or decreases		1965 (estimate)
			Increased pay costs (Public Law 87-793)	Other	
Management support activities	$2,366,975	$2,541,200	+$47,000	−$61,200	$2,527,000
Total increased pay act costs (Public Law 87-793)		(52,000)	(+47,000)	(+1,400)	(100,400)
Total available or estimate	2,366,975	2,541,200	+47,000	−61,200	2,527,000

STATUS OF PROGRAM

The Office of Management Services (OMS) was created after 2 years of successful performance of the management operations staff in providing consolidated management support to the Economic Research Service and Statistical Reporting Service. Established by Secretary's memorandum No. 1529, dated January 29, 1963, OMS provides consolidated management support services to the following agencies and offices of the Department:

Economic Research Service.
Statistical Reporting Service.
Cooperative State Research Service.
Farmer Cooperative Service.
Commodity Exchange Authority.
National Agricultural Library.
Office of the General Counsel.
Office of the Secretary.
Office of Budget and Finance.
Office of Hearing Examiners.
Office of Management Appraisal and Systems Development.
Office of Personnel.
Office of Plant and Operations.
Office of the Inspector General.
Office of Rural Areas Development.
Office of Information.

The consolidated management support functions comprise budget and finance, personnel and related programs, administrative services, and information work. The transfer of management support responsibilities to OMS began March 1, 1963, and was completed September 1, 1963, with the initiation of servicing for the Office of the Inspector General.

The agencies and offices served present a widely varied pattern of programs, professional skills, organization, and geographical location. Programs cover a broad range of activities, including physical science research, management, economic research, gathering and reporting of statistics, investigation and auditing, library maintenance, commodity futures markets surveillance, as well as assistance to farmers' cooperatives. Professional skills include statisticians, lawyers, economists, hearing examiners, demographers, pathologists, home economists, sociologists, veterinarians, mathematicians and management analysts. The organizational and geographical diversity is indicated by the fact that services are provided to the departmental policy staff offices in Washington, statistical reporting staff at 43 State locations, and commodity exchange regulation staff at 5 locations.

The Office of Management Services plays a positive role in management support of the agencies served. This includes designing and operating systems appropriate to each agency for financial, personnel, property, and paperwork management; establishing a balanced information program for several of the agencies; providing professional management advice to agency personnel; and relieving agency personnel of as much of the details of administrative services as possible, recognizing that the final management responsibility rests with the program officials in the agencies served.

The Office of Management Services is organized into four divisions:

1. Division of Administrative Services, which is responsible for providing purchasing; contracting; property management; records systems; mail, messenger, duplicating, central file, and mailing list services.

2. Division of Budget and Finance, which is responsible for providing the budgetary and financial management services. These include preparation of budgets, financial analysis, work measurement, and establishment and maintenance of fiscal records, billing and collecting, certification of payment, and related systems.

3. Division of Information, which serves as the information office for Cooperative State Research Service, Economic Research Service, Statistical Reporting Service, and Farmer Cooperative Service. This includes advising the agencies on information policy, developing materials for release to the press, radio, and television media, ideas and design for displays and motion pictures, editing research manuscripts, stocking and distributing publications of the agencies, and arranging for printing of publications and other materials for all agencies served.

4. The Division of Personnel, which is responsible for the personnel management services. These include operations of employee recruitment, placement, training and promotion systems; performance of organizational surveys and analyses; conducting classification systems; and development of employee relations services.

During fiscal year 1964 the first priority of the Office of Management Services has been, and is, to become fully operative through the consolidation and unification of existing systems and staffs. Some of the actions completed or underway are listed in the material that follows:

Selected examples of recent progress

1. *Centralization of accounting system.*—The individual agency accounting systems are being consolidated where practicable and feasible into a single operating OMS system. Under this system it has been possible to establish a single imprest cash fund to serve the needs of the agencies served in lieu of the four separate funds which existed prior to consolidation. Similarly, it has been possible to consolidate the issuance and control of travel requests.

2. *Conversion of personnel and payroll data to MODE.*—Personnel served by OMS were converted to the automated payroll operation (MODE) by September 15, 1963. This conversion required the extensive effort by OMS personnel in the preparation and checking of conversion documents, developing and implementing necessary changes in personnel procedures, and establishing tighter control of the processing of personnel actions.

3. *Space needs reviewed.*—A thorough study of space requirements has been completed for OMS and the agencies serviced covering 500,000 square feet in area. As of December 31, 1963, major space assignments had been made and moves accomplished for Office of the Inspector General, Economic Research Service, and Statistical Reporting Service. Additional space reassignments and moves are scheduled during the remainder of the fiscal year.

4. *ADP inventory and property accountability system.*—While major space adjustments are being completed, physical inventory and inspection of furniture and equipment is being undertaken. Property valued at $4,166,000 will be included in the accountability system.

5. *Work measurement system developed.*—The Office of Management Services has developed a work measurement system which includes production standards. This system when in full operation is expected to permit a more objective and timely evaluation of OMS manpower utilization and work performance, including, analysis of OMS operating costs and procedures. Assistance in the development and installation of work measurement systems is being made available to other agencies serviced by OMS.

6. *Permanent directives system established.*—A single directive system applicable to all agencies and offices serviced by OMS has been established. Previous agency administrative instructions are being reviewed for need prior to conversion to this uniform system. During the first half of this fiscal year, 100 releases have been issued under this system.

7. *Forms management program initiated.*—A unit to serve the forms design needs of the agencies served by OMS has been established. These services include analysis of needs, forms design, preparation, and requisition of forms required. Through December 31, 1963, this unit processed 213 forms. This

includes the issuance of 125 new forms, consolidation or revision of 88 forms, and elimination of 20 forms.

8. *Establish consolidated service operations units.*—To service the widely dispersed client agencies and offices within the USDA buildings in Washington, D.C., OMS is establishing four consolidated service operations units. These units provide mail and messenger services, supply support, photocopying and duplicating facilities, and other related operations.

9. *Assistance in development of classification standards.*—Developed and installed a research evaluation guide for classification of social science positions, and assisted in the development of occupational standards for economists positions.

10. *Special training courses developed.*—Special training courses were developed in cooperation with the Office of Personnel for all personnel of the Office of the Inspector General. OMS also assisted in the development and arrangements for the conduct of a special automatic data processing training course. Work is underway on designing an improved system for the identification of individual and organizational training needs.

11. *New publications.*—The Farm Index, a monthly magazine, initiated in October 1962, is published for the Economic Research Service. It reports to the agricultural trade and farm groups in nontechnical language the results of broad research programs of ERS, with sections on production, marketing, the foreign market, rural life, and the consumer. Reception of the magazine has been excellent. This fall it won first place in the Governmentwide publications contest sponsored by the Federal Editors Association. The Agricultural Science Review, a quarterly journal is being published for Cooperative State research service. Its primary goal is to broaden communications among scientists in the several disciplines. It emphasizes broad survey-type articles. Initial reaction, to the first issue released in December, has been highly favorable.

12. *Writer training workshops.*—Several information workshops have been held in both the Washington and field offices of Statistical Reporting Service to simplify report writing, assist in planning exhibits for State fairs and other events, and give advice on printing and distribution of crop, livestock, and price reports. A course in technical report writing has been established for scientists and economists.

13. *Increased emphasis on television and radio.*—Increased amounts of research and statistical information have been contributed to the Department's weekly radio services, "The American Farmer" (75 stations), and "Agriculture, U.S.A." (195 stations). Each month the Statistical Reporting Service crop production report is presented by a staff member on a locally produced television program which also is carried on eight stations across the Nation. Considerable data from Economic Research Service and Farmer Cooperative Service are carried on this program.

14. *Outlook charts.*—The annual agricultural outlook chartbook was published 2 months earlier than usual this year. This was done to meet the need of State extension economists for earlier availability of basic charts for use in connection with State outlook programs. In addition, a special section of 25 outlook charts was prepared and included in the Farm Index magazine.

15. *Listings of selected activities statistics.*—The following tabulations present selected workload statistics for the first 6 months of fiscal year 1964 compared to the estimated workload projected for the fiscal year 1964.

Activity	Completed, July–December 1963	Estimated, fiscal year 1964
Incoming/outgoing mail (pieces)	5,400,000	10,100,000
Procurement requisitions	4,900	8,000
Travel vouchers	9,395	20,000
Other vouchers	11,442	26,000
Employment actions	2,437	5,650
Positions classified	730	1,400
Publications distributed	28,300	47,000
Manuscripts edited	182	378
Printing and reproduction (impressions)	578,599	1,711,000
Special messenger trips	12,684	22,000

INTRODUCTORY REMARKS

Mr. WHITTEN. Mr. Robertson, do you have a general statement to present?

Mr. ROBERTSON. I do not have a general statement, Mr. Chairman.

As this committee knows, the Office of Management Services was set up by the Secretary of Agriculture on January 29, 1963. The purpose of this, sir, was to attempt to do the same thing in the management area for a number of the smaller agencies in the Department of Agriculture that the Office of the Inspector General is doing in the investigative and audit area for the entire Department. We were attempting to provide management support, housekeeping functions, budget, financial operations, personnel operations, procurement, supplies, and so on, on a consolidated basis for these small agencies.

At that time we worked out with the individual agencies the money and personnel to be transferred to this centralized staff for 1963 and 1964. In 1964, sir, we have for "Salaries and expenses," $2,541,200, available to this organization from appropriated funds. In 1965 we are requesting in the budget $2,482,000, a reduction below last year. That would be all I would say, sir, and Mr. Kiefer will take it from here.

Mr. WHITTEN. You may proceed, Mr. Kiefer.

GENERAL STATEMENT

Mr. KIEFER. Mr. Chairman, I have a prepared statement which I would be glad to read at this time, if it is your wish, or to have it included in the record.

Mr. WHITTEN. You might proceed with it.

Mr. KIEFER. I am very pleased, Mr. Chairman and members of this committee, to have this opportunity to discuss the work of the Office of Management Services—what we have accomplished to date, and what our goals are for the days ahead.

I would like to depart from my printed statement because Mr. Robertson has covered a good bit of the background material.

Mr. WHITTEN. You might put it in the record and tell us how it has worked out. We know what is involved.

(The statement follows:)

STATEMENT OF CHARLES F. KIEFER, DIRECTOR, BEFORE THE HOUSE SUBCOMMITTEE ON APPROPRIATIONS FOR THE DEPARTMENT OF AGRICULTURE AND RELATED AGENCIES

Mr. Chairman and members of the committee, I am pleased to have this opportunity to discuss the work of the Office of Management Services—what we have accomplished to date and what our goals are for the days ahead. This Office came into being on February 1, 1963, as a result of Secretary's Memorandum No. 1529, for the stated purpose of improving efficiency, reducing costs in the conduct of management support work and to assist in improving management effectiveness of the agencies served. These aims are being accomplished through a single organization providing consolidated services. Consolidating management support services means bringing together in one organization those activities concerned with personnel, budget, and finance, procurement, space and related facilities management, and public information work of several selected agencies for the purpose of getting further economies in administration.

These agencies served are:

Office of the Secretary.
Office of Budget and Finance.
Office of Hearing Examiners.
Office of Management Appraisal and Systems Development.
Office of Personnel.
Office of Plant and Operations.
Office of the Inspector General.
Office of Rural Areas Development.
Office of Information.
National Agricultural Library.
Office of the General Counsel.
Farmer Cooperative Service.
Commodity Exchange Authority.
Cooperative State Research Service.
Economic Research Service.
Statistical Reporting Service.
Office of Management Services.

CONSOLIDATING OPERATIONS REDUCES COST

The Department of Agriculture and other large private organizations have been consolidating operations in an effort to reduce costs and improve operating effectiveness. The creation of OMS brings this consolidation trend into the fields of personnel, budget and accounting, information, and general administrative operations at the agency level. This is a new development, an experiment, and a challenge.

Prior to the creation of OMS, the management support work for these agencies was handled in several ways. One management unit serviced the Secretary's Office and immediate staff offices; another setup serviced the agricultural economics agencies; the other agencies had their own individual support groups. Through the consolidation of the arrangements into the Office of Management Services, a greater economy is occurring than would otherwise have taken place. The affected agencies are receiving management services at least equal to that provided prior to the transfer of these functions to OMS. I have copies of our organization chart and a map showing the field locations of the agencies served by OMS for inclusion in the record.

U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF MANAGEMENT SERVICES

Organizational Chart

OFFICE OF THE DIRECTOR

Formulates broad policies and plans for the administration of the management, information, appraisal and service programs in order to effectuate the integration of such programs with the substantive programs of the offices and agencies served. Directs and coordinates the administration and integration of the over-all management, budget, fiscal, personnel, administrative services, information, and related review programs necessary to meet the management support requirements of the programs of the offices and agencies served.

MANAGEMENT DEVELOPMENT AND REVIEW STAFF

Performs research and develops studies of management systems services, and practices in order to provide staff advice and assistance in the improvement of management of the offices and agencies served. As requested, installs and implements management improvements.

DIVISION OF ADMINISTRATIVE SERVICES

Administers the procurement, property, space, communications, procedures, paperwork, and related management programs necessary to meet support requirements of the over-all programs and activities of the offices and agencies served.

DIVISION OF BUDGET AND FINANCE

Administers the budget, fiscal and related financial management programs necessary to meet requirements of the over-all programs and activities of the offices and agencies served.

DIVISION OF INFORMATION

Administers a comprehensive information program relating to all programs and activities of the offices and agencies served.

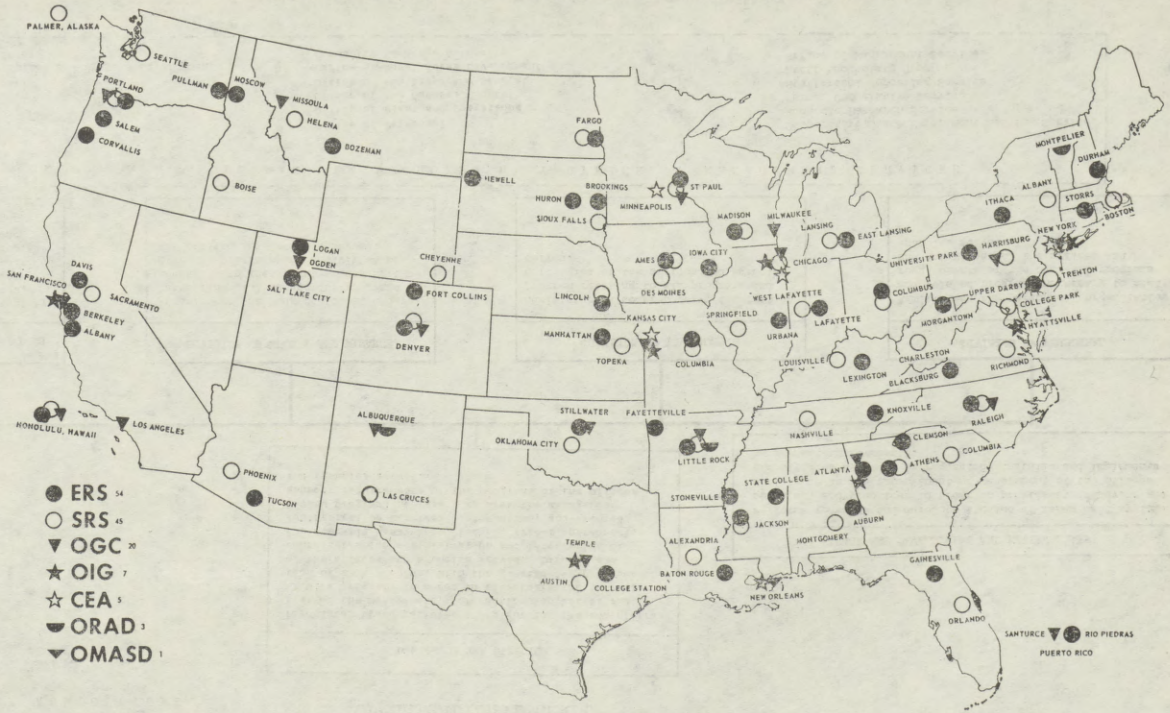
DIVISION OF PERSONNEL

Administers the personnel, organization, and related programs necessary to meet requirements of the over-all programs and activities of the offices and agencies served.

OFFICES AND AGENCIES PROVIDED MANAGEMENT SUPPORT BY OFFICE OF MANAGEMENT SERVICES

Office of the Secretary
Office of Budget & Finance
Office of Hearing Examiners
Office of Information
Office of Management Appraisal and Systems Development
National Agricultural Library
Office of Personnel
Office of Plant and Operations
Office of the General Counsel
Office of the Inspector General
Office of Rural Areas Development
Commodity Exchange Authority
Cooperative State Experiment Station Service
Economic Research Service
Farmer Cooperative Service
Statistical Reporting Service
Staff Economists Group
Office of Management Services

LOCATIONS OF FIELD OFFICES OF AGENCIES SERVED BY OMS



PREPARED BY DIVISION OF ADMINISTRATIVE SERVICES
OFFICE OF MANAGEMENT SERVICES, U.S.D.A.
DECEMBER 1982

1965 BUDGET ESTIMATE

The conferees in reporting on the 1964 budget recommended that for fiscal year 1965 a separate budget be submitted for OMS. Accordingly, we are proposing a direct appropriation of $2,482,000 for fiscal 1965. This is $59,200 below the amount available from appropriations in fiscal 1964. This net decrease includes a reduction of $106,200 in the cost of the OMS activities financed from direct appropriations and an increase of $47,000 for additional pay costs in 1965 associated with the second step of the pay increase authorized by Public Law 87–793.

The 1965 budget also proposes continued financing of management services activities from funds made available by reimbursements and transfer to the agencies serviced by OMS which are not included in the direct appropriations. Servicing these areas of agency activities substantially increase the workload of OMS in accounting, employment of personnel, contracting, purchasing, and similar administrative services. For fiscal 1965 the OMS budget includes $426,000 to service these activities, including a reduction of $25,800 below the amount budgeted in fiscal 1964. This reduction, plus the $106,200 savings in the amount requested through direct appropriation, results in a total savings of $132,000 over comparable amounts budgeted in fiscal 1964. These savings arise from the advantages of consolidating management support activities for 17 agencies within a single organization.

WORKLOAD INCREASES DUE TO PROGRAM EXPANSION

The offices and agencies serviced by OMS are requesting program increases in fiscal 1965 from direct appropriations totaling $767,500 and 101 man-years as reflected in the revised estimates submitted to the Congress on March 9. These increases will result in increased management support workload in the areas of financial management, administrative services, and personnel administration. The revised estimates propose no increase for OMS to service these additional program activities. We are planning to absorb the accompanying increase in management support workload. Frankly, I am not sure to what extent this absorption will affect the caliber of services provided to our client agencies. But you may rest assured that we will make every effort to maintain and improve our current level of service.

TRANSITION OF MANAGEMENT SUPPORT ACTIVITIES

During the past year, we have been engaged in establishing smooth and efficient arrangements between OMS and each of the offices served. OMS assumed the management support responsibilities for the 17 agencies and offices between March 1 and September 1, 1963. While we had 2 years of experience in a consolidated oragnization in the former management operations staff in the agricultural economics agencies, I think it is fair to say that providing management services to 17 agencies today is a much more demanding job than providing for 3 as was the case in agricultural economics.

We are discovering afresh what it takes to do the job in each of our major functional areas. We have established goals for ourselves.

We have installed our own internal work-measurement and manpower utilization procedures. We are working toward simplifying the various routines and systems in the management areas. We have made some progress in the past year. We expect to make more progress as we learn more about the opportunities to avoid costs and save money on a 5,000 to 6,000 man-year complex. We have had excellent cooperation from each agency we serve.

The table, shown on page 75 of the Status of Program, presents preliminary data in our area of service. It is not all of the data. We expect that in the future the data we are now collecting will present a far more complete picture of our operations.

We recognize that the work of management support to agency programs is important but comprises only a small fraction of the cost of the programs themselves. Agency program management is the key element in the efficient conduct of Federal programs authorized by the Congress. Management support consolidation contributes in two principal ways to agency management effectiveness:

(1) Improved professional specialization in consolidated management support makes possible better on-the-spot advice and action for key agency officials.

(2) Removal of many of the detailed duties from support personnel remaining in the agencies makes possible their increased participation in program management work.

We are searching for the lowest cost per capita or per program dollar while we give the highest quality of quiet and timely service. Our success, however, will be measured in terms of our contribution to agency management effectiveness.

We shall be glad to try to answer your questions, Mr. Chairman.

TYPE SERVICES PROVIDED

Mr. WHITTEN. Are you dealing with recruiting for various agencies?

Mr. KIEFER. Mr. Chairman, when the agencies have personnel needs, they send us a piece of paper which tells us what their needs are and then we go ahead and contact the Civil Service Commission through its several examining boards and get the list of the eligibles that the Commission has, present them to the agency, and the agency makes the selections. We are the paper pushers, Mr. Chairman, the "downfield blockers" in administration.

Mr. WHITTEN. Just tell us orally about how this has worked out.

Mr. KIEFER. Mr. Chairman, it has been a challenge. It has been a different experience for most of us who have been in Government a good many years. I would say that we are giving the agencies at least as good service as they had before the Secretary's memorandum was issued.

Mr. WHITTEN. You hope to give them better service as you proceed?

Mr. KIEFER. At least as good, and we hope to improve on it as time goes by; yes, sir.

FUTURE FINANCIAL NEEDS

Mr. WHITTEN. How about the outlook? I notice you have a slight reduction this year. Do you figure it is going to be more economical in the long run?

Mr. KIEFER. Yes; we do. We feel that. Of course, I may be a little biased perhaps——

Mr. WHITTEN. If you don't recommend yourself, you know, it is hard to find someone else to do it.

Mr. KIEFER. Yes. We have enough people certainly brought together in one place with enough brains and experience that ought to be able to do this job better than if it were dispersed in 17 different pockets. That is the central idea that the Secretary had, to try to really save some money. As the Administrative Assistant Secretary has said, we believe we have done it and we believe we are going to continue to do it.

Mr. ROBERTSON. I would want to be very, very honest with you, as honest as we could, Mr. Chairman: there is a reduction this year. This operation is a little bit different, I think, from the regular staff offices. As the agencies that they service increase, if they do increase—the Statistical Reporting Service, the Farmer Cooperative Service, the Office of Inspector General, and the other smaller agencies—this group provides additional administrative services for them. As they get added personnel and added functions, or added funds for expanded functions, these people are actually going to handle the

papers for them. They have to process the papers and I wouldn't want you to think, sir, or I wouldn't want to say to you, sir, that we are going to have a reduction every year. But we are going to do our best not to make this a straight-line projection in the sense that our expenses have to go up in this area in direct proportion to the increase in the agencies that are being supported by this office.

Mr. WHITTEN. That is one of the things that I found fault with through the years. Not here, but in other agencies. We have had going staff operations in the Department which took a position of a supplemental appropriation for some program. Although the operating heads of that agency had been in existence, when their appropriations were set up on a full year's basis, they suddenly end up taking 10, 12, or 15 percent of the supplemental.

I have had our staff looking into this matter, with the cooperation of some of your people. I am glad to have you make that statement. We have had other instances involving the Legal Department. For instance, you don't need a new lawyer each time you get a new lawsuit. I hope you will keep an eye on that situation.

TRANSFERS IN AGENCY APPROPRIATIONS

Now, the other point that I would like to ask, does your budget reflect reductions in these other agencies to the same degree that you have included them in the buildup of your own request?

Mr. ROBERTSON. I would like Mr. Grant to verify that. When these transfers were made, Mr. Grant, these funds were transferred from the agencies and corresponding reductions made there, were they not?

Mr. GRANT. Yes; corresponding reductions were made in those agencies. And these reductions are reflected in the budget, wherever possible. Where this was not possible, as was the case with section 32 funds—where we cannot make a reduction in the appropriation—we reduced the amount available for administrative expenses. This released additional section 32 funds for program purposes.

MANPOWER CEILING

Mr. WHITTEN. How about your manpower limitations for this operation? What is the outlook at the end of this fiscal year and for fiscal 1965? Will you have to absorb some reductions?

Mr. ROBERTSON. In this particular operation here, sir?

Mr. WHITTEN. Yes.

Mr. ROBERTSON. We are absorbing some reductions, sir, but I believe that it is Mr. Kiefer's view that we will be able to do the job with the ceiling that we have in this operation, sir.

Mr. GRANT. The reduction of $106,200 contemplates eliminating 22 positions by the end of this fiscal year.

Mr. WHITTEN. That means you will operate next year with that reduced number?

Mr. KIEFER. That is right. This is at a time, Mr. Chairman, when the agencies served by OMS are before you for an increase of 100 man-years. We are not asking for an increase.

REVISION OF PRELIMINARY ESTIMATES FOR 1964

Mr. WHITTEN. Back in January Mr. Robertson indicated that he might need an extra $550,000 in fiscal year 1964 in addition to the earlier amount.

Mr. ROBERTSON. This, as I recall, relates to the reimbursable funds, not appropriated funds. Right, sir?

Mr. GRANT. It is partly in the reimbursable area. The revision was necessitated by the conference report on the 1964 Appropriation Act which limited the amount that could be made available to the Office of Management Services to a percentage of additional pay costs plus a "base" amount which had been calculated last May. This amount did not reflect the assumption of support services for the newly organized Office of the Inspector General. Then, in addition, programs within the agencies being served increased to a level which required additional support work. These programs were largely of a reimbursable nature. Now, the amounts shown for 1964 in the justification are consistent with the January revision.

Mr. WHITTEN. Thank you, Mr. Robertson, Mr. Kiefer, and Mr. Waldman.

Mr. ROBERTSON. Thank you very much, Mr. Chairman.

TUESDAY, MARCH 17, 1964.

FARMERS HOME ADMINISTRATION

WITNESSES

CHARLES S. MURPHY, UNDER SECRETARY OF AGRICULTURE
HOWARD BERTSCH, ADMINISTRATOR, FARMERS HOME ADMINISTRATION
FLOYD F. HIGBEE, DEPUTY ADMINISTRATOR, FARMERS HOME ADMINISTRATION
J. VIRGIL HIGHFILL, ASSISTANT ADMINISTRATOR, OPERATING LOANS, FARMERS HOME ADMINISTRATION
BERNARD H. POLK, ASSISTANT ADMINISTRATOR, REAL ESTATE LOANS, FARMERS HOME ADMINISTRATION
JAMES T. HOLLIDAY, DIRECTOR, BUDGET DIVISION, FARMERS HOME ADMINISTRATION
HOWARD V. CAMPBELL, DIRECTOR, FARMERS HOME DIVISION, OFFICE OF THE GENERAL COUNSEL
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Gentlemen, we come now to the Farmers Home Administration. I would like to have pages 127 through 134, 142, 166, 170–171 and 173–176 of the justification, volume III, included in the record at this point.

(The pages referred to follow:)

PURPOSE STATEMENT

The Farmers Home Administration, established November 1, 1946, pursuant to the Farmers Home Administration Act of 1946, conducts the following activities:

1. Makes direct and insured farm ownership loans pursuant to subtitle A of the Consolidated Farmers Home Administration Act of 1961, as amended. Such

loans are made to farmers (including persons engaged in fish farming) and ranchers for acquiring, enlarging, or improving farms and farm buildings; land and water development, use and conservation; forestry development; recreational facilities; refinancing indebtedness; and for loan closing costs. Loans are confined to farms which are not larger than family farms. A loan cannot exceed $60,000 in any case. Loans are repayable in not more than 40 years and bear interest not in excess of 5 percent. Insured loans are made with funds advanced by private lenders and payments of principal and interest are fully guaranteed. The Government retains at least one-half of 1 percent interest as an insurance premium. Any interest in excess of one-half of 1 percent which is not paid to the lender is available for administrative expenses of the Farmers Home Administration. The Administration services these insured loans, makes collections, and pays the lender.

2. Makes direct and insured soil and water conservation loans pursuant to subtitle A of the Consolidated Farmers Home Administration Act of 1961, as amended. Such loans are made to farmers (including persons engaged in fish farming) and ranchers and to associations for the effective development and utilization of water supplies and for the improvement of farmland by soil and water conserving facilities and practices. Loans to associations also may be made for shifts in land use including the development of recreational facilities. Loans may be made on farms of any size. For loans to individuals, a loan cannot exceed $60,000 in any case. For loans to associations, the unpaid principal indebtedness is limited to $500,000 in the case of a direct loan and $1 million in the case of an insured loan. Loans are repayable to not more than 40 years and bear interest not in excess of 5 percent. Insured loans are made on the same basis as farm ownership insured loans.

3. Makes direct operating loans pursuant to subtitle B of the Consolidated Farmers Home Administration Act of 1961, as amended. Such loans are made to farmers (including persons engaged in fish farming) and ranchers for costs incident to reorganizing a farming system for more profitable operations; for a variety of essential farm operating expenses such as purchase of livestock, farm equipment, feed, seed, fertilizer, farm supplies, and other essential farm operating expenses including cash rent, and costs incident to the production and harvesting of forestry products; for financing land and water developmet, use and conservation, including recreational uses and facilities; for refinancing indebtedness; for other farm and home needs; and for loan closing costs. Loans are confined to operators of not larger than family farms. The outstanding principal loan balance for operating loans is limited to $35,000. Loans bear interest not in excess of 5 percent and may be made for periods up to 7 years, but may be renewed for not more than 5 additional years. Loans are secured by crop and chattel liens, and when necessary, by real estate mortgages.

4. Makes direct emergency loans pursuant to subtitle C of the Consolidated Farmers Home Administration Act of 1961, as amended. Such loans may be made in designated areas where a natural disaster has caused a general need for agricultural credit which cannot be met for temporary periods of time by private, cooperative, or other responsible sources, including the Farmers Home Administration in its regular loan programs. Emergency loans are made to eligible established farmers (including persons engaged in fish farming), ranchers, or oyster planters, and to private domestic corporations or partnerships engaged primarily in farming, ranching, or oyster planting. Emergency loans may be made for any of the purposes for which farm ownership, soil and water conservation, and operating loans are authorized. Emergency loans bear interest not in excess of 3 percent and are repayable not later than regular loans made by the Farmers Home Administration for similar purposes. Loans may be made outside of designated emergency areas to persons or corporations who have suffered severe production losses not general to the area as a result of a natural disaster, or to persons who are indebted for emergency loans made by the Farmers Home Administration under prior authorities.

5. Makes direct rural housing loans pursuant to title V of the Housing Act of 1949, as amended. Building loans are made to farmowners, to owners of other real estate in rural areas, to elderly rural residents who own land or who can buy a small tract in rural areas, and to long-term farm leaseholders to construct, improve, alter, repair, or replace dwellings and essential farm service buildings. Direct farm enlargement and development loans, along with building loans, are also made to farmowners on potentially adequate farms who need to develop their farms so as to increase their income sufficiently to repay the loans. Loans are repayable in not more than 33 years and bear interest not in excess of 4 percent.

6. Makes rural housing repair and improvement grants pursuant to title V of the Housing Act of 1949, as amended, for such minor items as repairing roofs, providing sanitary facilities, providing a sanitary water supply, and supplying screens. In some cases, combination loans and grants are made, but the loan, grant, or combination may not exceed $1,000.

7. Makes insured farm labor housing loans pursuant to title V of the Housing Act of 1949, as amended. Such insured loans are made either to a farmowner or to a public or private nonprofit organization to provide modest living quarters and related facilities for domestic farm labor. These loans, which are made with funds advanced by private lenders, are repayable in not more than 33 years. Otherwise, insured farm labor housing loans are subject to the same terms and limitations applicable to other types of insured loans, except that these loans are not limited to family farms or to any specific amount.

8. Makes insured loans for rental housing for the elderly pursuant to title V of the Housing Act of 1949, as amended. Such insured loans are made to individuals, corporations, associations, trusts, or partnerships to provide moderate cost rental housing and related facilities for elderly persons in rural areas. These loans, made with funds in the agricultural credit insurance fund for sale to private lenders, are repayable in the number of years best suited to the individual case and bear interest at 5¾ percent. No loan may exceed $100,000. Authority to insure these loans will expire on June 30, 1964, but extension of this program is being proposed.

9. Makes direct loans for rental housing for the elderly pursuant to title V of the Housing Act of 1949, as amended. Such direct loans are made to private nonprofit corporations and consumer cooperatives to provide modest cost rental housing and related facilities for elderly persons of low or moderate income in rural areas. These direct loans, made from the rural housing for the elderly revolving fund, are repayable in not more than 50 years and bear interest at a rate similar to that of the direct loan program of the Housing and Home Finance Agency for the elderly in urban areas, which is currently 3⅝ percent.

10. Provides technical assistance and makes direct loans for rural renewal activity pursuant to section 102 of the Food and Agriculture Act of 1962. Loans will be made to local agencies or groups for rural renewal projects specifically related to conservation and land utilization. Each project financed with loan funds will be an important component of an overall rural renewal plan developed to rebuild the economy of the designated area. To be eligible for designation as a rural renewal area, the locality must be one of chronic underemployment on farms and unemployment in the surrounding communities. The area must also be one in which agriculture or forestry contribute substantially to the economy. Rural renewal loans will be repayable in not more than 30 years, with repayment of principal and interest deferred up to 5 years, if necessary. Loans will bear interest at the average rate paid by the U.S. Treasury on obligations of similar maturity. The present rate is 3.046 percent. Loans in excess of $250,000 will require approval of the Committee on Agriculture of the House and Committee on Agriculture and Forestry of the Senate.

11. Makes direct watershed and flood prevention loans from funds appropriated to the Soil Conservation Service under "Watershed protection" and under "Flood prevention." Such loans are made to local organizations for installing, repairing or improving works of improvement and water storage facilities, purchasing sites or rights-of-way and for related costs. Loans are repayable in not more than 50 years at an interest rate based on specified outstanding obligations of the Treasury. Total loans outstanding on any one project may not exceed $5 million.

12. Beginning with fiscal year 1965, the Farmers Home Administration will make direct resource conservation and development loans from funds appropriated to the Soil Conservation Service under "Resource conservation and development projects." Loans will be made to local organizations and individuals for planned conservation measures and works of improvement as specified in approved work plans.

Technical guidance in planning and carrying out sound farm operations is provided borrowers on the basis of their individual problems and needs. No loan is made to anyone who can secure adequate credit from other sources at reasonable rates. A local county committee of three (two of whom must be farmers) is required to approve each applicant and each loan.

On July 1, 1963, the Administration was servicing the accounts of about 229,850 individual borrowers with outstanding indebtedness of $2,103,100,000 principal and interest.

Available funds and man-years, 1963 and estimated, 1964 and 1965

Item	Actual, 1963		Estimated, available 1964		Budget estimate, 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Farmers Home Administration:						
Rural housing grants and loans:						
Regular building loans	($183,034,986)		($122,000,000)		[1] ($5,000,000)	
Elderly building loans	(3,302,090)		(10,000,000)		(15,000,000)	
Subtotal (obligations)	(186,337,076)		(132,000,000)		(20,000,000)	
Enlargement and development loans and repair and improvement grants (obligations)	(1,064,305)		(4,400,000)		(2,500,000)	
Total, rural housing grants and loans:						
Obligations	(187,401,381)		(136,400,000)		(22,500,000)	
Appropriations			25,000,000			
Direct loan account (obligations for loans):						
Real estate loans:						
Farm ownership	(40,000,000)		(45,000,000)		(10,000,000)	
Soil and water conservation	(10,000,000)		(15,000,000)		(15,000,000)	
Subtotal, real estate loans [2]	(50,000,000)		(60,000,000)		(25,000,000)	
Operating loans	(300,000,000)		(300,000,000)		(300,000,000)	
Total, direct loan account	(350,000,000)		(360,000,000)		(325,000,000)	
Rural renewal			1,200,000	12	2,190,000	25
Rural housing for the elderly revolving fund	1,000,000		3,500,000		5,000,000	
Salaries and expenses:						
Appropriation	34,991,345	4,726	[3] 38,043,900	4,952	40,284,000	5,078
Transfer from agricultural credit insurance fund	(1,000,000)		(1,050,000)		(2,500,000)	
Emergency credit revolving fund (obligations)	(66,531,649)	602	(68,200,000)	594	(68,298,000)	604
Total	35,991,345	5,328	42,743,900	5,558	47,474,000	5,707
Deduct allotments to other agencies			27,000	3	27,000	3
Net	35,991,345	5,328	42,716,900	5,555	47,447,000	5,704
Obligations under other USDA appropriations:						
Allotments from SCS:						
Watershed protection	2,216,356	12	4,204,771	20	5,000,000	32
Flood prevention	60,421	8	1,000,000	7	1,000,000	6
Resources and conservation development					1,300,000	20
Total, Other USDA Appropriations	2,276,777	20	5,204,771	27	7,300,000	58
Total, above items	38,268,122	5,348	47,921,671	5,582	54,747,000	5,762
Other Funds:						
State Rural Rehabilitation Corporations	3,078,336	17	3,660,000	17	3,660,000	16
Assistance to ARA program (Department of Commerce)	338,728	30	350,000	31	360,200	34
Agency for International Development	115,441	11	143,101	12	140,000	12
Miscellaneous reimbursements	112,448	13	250,000	24	200,000	20
Total, other funds	3,644,953	71	4,403,101	84	4,360,200	82
Total, Farmers Home Administration	41,913,075	5,419	52,324,772	5,666	59,107,200	5,844

[1] In addition legislation for insured rural housing loans, estimated at $350,000,000 for 1965, is proposed.
[2] In addition, insured loans totaled $200,338,158 in 1963 and are estimated at $208,000,000 for 1964 and $206,000,000 for 1965.
[3] An additional $500,000 for funds available for loans may be used for temporary field employment to meet unusual or heavy workload increases.

(a) *Rural housing grants and loans*

Appropriations Act, 1964, and base for 1965	$25,000,000
Budget estimate, 1965	
Decrease (for rural housing building loans)	−25,000,000

Project statement

	1963	1964 (estimated)	Decrease	1965 (estimated)
1. Building loans		$25,000,000	−$25,000,000	

The following tabulation and explanation of amounts to be obligated in 1965 are presented on the basis of available funds, including the carryover of unobligated balances from prior years.

Project	1963	1964 estimated	Increases (+) and decreases (−)	1965 estimated
Rural housing grants and loans:				
Borrowing authorization:				
(a) Building loans	$183,034,986	$122,000,000	−$117,000,000	$5,000,000
(b) Building loans for the elderly	3,302,090	10,000,000	+5,000,000	15,000,000
Direct appropriation:				
(a) Enlargement and development loans	34,650	1,000,000	−500,000	500,000
(b) Repair and improvement grants	1,029,655	3,400,000	−1,400,000	2,000,000
Total, direct appropriation	1,064,305	4,400,000	−1,900,000	2,500,000
Total obligations	187,401,381	136,400,000	−113,900,000	22,500,000
Unobligated balances carried forward	205,764,299	94,364,299	−22,500,000	71,864,299
Unobligated balances brought forward	−342,540,699	−205,764,299	+111,400,000	−94,364,299
Recovery of prior-year obligations	−624,981			
New borrowing authorization provided in the Senior Citizens Housing Act of 1962	−50,000,000			
Total appropriation or estimate		25,000,000	−25,000,000	

(b) *Direct loan account*

	Loan authorizations		
	Real estate loans	Operating loans	Total
Available authorizations, 1964	$60,000,000	$300,000,000	$360,000,000
Budget estimate, 1965 (authorizations to use balances in direct loan account	25,000,000	300,000,000	325,000,000
Decrease (in farm ownership loans)	−35,000,000		−35,000,000

Project statement

Project	1963	1964 (estimated)	Decrease	1965 (estimated)
Loan authorizations:				
1. Real estate loans:				
(a) Farm ownership loans	$33,402,823	$45,000,000	−$35,000,000	$10,000,000
(b) Soil and water conservation loans	9,993,028	15,000,000		15,000,000
Subtotal, real estate loans	43,395,851	60,000,000	−35,000,000	25,000,000
2. Operating loans	300,000,000	300,000,000		300,000,000
Total, loan program	343,395,851	360,000,000	−35,000,000	325,000,000
Unobligated loan authorization expiring	6,604,149			
Total available or estimate	350,000,000	360,000,000	−35,000,000	325,000,000

The following tabulation reflects the status of the direct loan account:

	1963	1964 estimated	1965 estimated
Balance available from prior years	$243,765,996	$174,545,599	$113,300,000
Loan collections	284,231,547	311,254,401	339,619,000
Total available	527,997,543	485,800,000	452,919,000
Loan obligations or authorizations	−343,395,851	−360,000,000	−325,000,000
Payments of interest on notes to the Treasury	−10,707,683	−12,500,000	−15,500,000
Adjustment of prior year obligations	+651,590		
Balance available in subsequent years	174,545,599	113,300,000	112,419,000

Rural Renewal

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
FARMERS HOME ADMINISTRATION			
11 Personnel compensation:			
Permanent positions		57	129
Other personnel compensation		1	
Total personnel compensation		58	129
12 Personnel benefits		4	10
21 Travel and transportation of persons		8	15
23 Rent, communications, and utilities		1	5
24 Printing and reproduction		2	3
25 Other services		150	160
26 Supplies and materials			1
33 Investments and loans		950	1,840
Total obligations, Farmers Home Administration		1,173	2,163
ALLOTMENT TO ECONOMIC RESEARCH SERVICE			
11 Personnel compensation: Permanent positions		25	25
12 Personnel benefits		2	2
Total Economic Research Service		27	27
Total obligations		1,200	2,190

Personnel summary

	1963 actual	1964 estimate	1965 estimate
FARMERS HOME ADMINISTRATION			
Total number of permanent positions		26	26
Average number of all employees		9	22
Employees in permanent positions, end of year		20	23
Employees in other positions, end of year		0	0
Average GS grade		6.8	6.8
Average GS salary		$6,807	$6,875
ALLOTMENT TO ECONOMIC RESEARCH SERVICE			
Total number of permanent positions		4	4
Average number of all employees		3	3
Employees in permanent positions, end of year		4	4
Employees in other positions, end of year		0	0
Average GS grade		8.9	8.9
Average GS salary		$8,448	$8,441

Appropriation Act, 1964	$1,200,000
Budget estimate, 1965	2,190,000
Increase (for loans and related expenses)	+990,000

Project statement

Project	1963	1964 (estimated)	Increases and decreases		1965 (estimated)
			Increased pay costs (Public Law 87-793)	Other	
Rural renewal:					
Loans and related expenses		$1,200,000		+$990,000	$2,190,000
Total increased pay act costs (Public Law 87-793)		(5,000)	(+$6,000)		(11,000)
Total available or estimate		1,200,000		+990,000	2,190,000

INCREASE

For fiscal year 1965 it is estimated that about 10 loans totaling $1,840,000, an increase of $890,000 over 1964, will be made by the Farmers Home Administration for individual rural renewal projects in areas designated as rural renewal areas. This will permit further implementation of the projects in the areas underway in 1964.

Administrative costs of the Farmers Home Administration are estimated at $323,000, an increase of $100,000 over 1964. At the county or area level, a program leader and a clerk are generally needed to assist the local public agency in carrying out a rural renewal project. In addition, it will be necessary in some cases to strengthen FHA county office and State office staffs in connection with loan development, processing and servicing of loans. A small increase in national office staffing will be required for establishing standards, procedures, guides, loan making and loan servicing and general area development activities. This increase will permit continuation of the rural renewal program in 1965 on a full-year basis.

The rural renewal development plan will outline all of the principal measures that need to be taken to rebuild the economy of the area. It also will include details for carrying out individual development projects. For example, the plan might include such information as specific changes in land use or ownership; the specific size and site of a proposed dam or structures to be constructed; improvements to be made in public buildings; or the number of family farms to be established in specific areas. The plan also will list priorities for acceptance among the various development projects, together with proposed methods of financing. The project leader will utilize planning assistance from other agencies in developing a sound rural renewal development plan for the particular area.

Rural housing for the elderly revolving fund

Appropriation Act, 1964	$3,500,000
Budget estimate, 1965	5,000,000
Increase (for loans to provide rental housing and related facilities for elderly persons in rural areas)	+1,500,000

Project statement

Project	1963	1964 (estimated)	Increase	1965 (estimated)
Loans (total appropriated or estimate)	$1,000,000	$3,500,000	+$1,500,000	$5,000,000

INCREASE

There are now 6,500,000 persons 62 years and over on farms and in rural communities. This number is increasing at the rate of 400,000 each year. A large group of elderly persons in rural areas, about 45 percent, need better housing. Many are unable to obtain it through ownership means. Some of them do not have sufficient savings or income to meet their medical bills, food, and

other necessities, and still meet the payments on a home, rising maintenance costs and higher taxes. Others, because of advanced age or lack of physical strength, lack the capacity of maintaining their own homes.

As a group, the elderly are in the low and moderate income categories. These citizens do not wish to move to urban areas for housing facilities adapted to their needs. They wish to spend their declining years near the environment in which they have lived all their lives, close to their friends, their church, and other organizations.

Low-interest direct loans to private nonprofit corporations and consumer cooperatives to provide rental housing and related facilities for elderly persons will help solve their housing problem. Rental housing and related facilities would not be elaborate or extravagant in design. This type of credit will enable many of the elderly persons in rural areas with limited income to obtain decent, safe, and sanitary housing to live out their last remaining years in dignity and comfort.

Loans from the revolving fund will be made to private nonprofit corporations and consumer cooperatives to provide modest cost rental housing and related facilities for elderly persons (age 62 and over) of low or moderate income in rural areas. These will be direct loans repayable in not more than 50 years and will bear interest comparable to housing loans for the elderly in urban areas under programs of the Housing and Home Finance Agency (currently 3⅝ percent). Principal and interest payments from borrowers will be returned to the fund. Administrative expenses for this program are included under the appropriation item, "Salaries and expenses, Farmers Home Administration."

It is estimated that 26 loans totaling $4,500,000 will be made from the fund in fiscal year 1964 and that 29 loans totaling $5 million will be made in 1965.

The following table shows the estimated operation of the fund for fiscal year 1964 and 1965:

	1964	1965
Balance available from prior years	$1,000,000	$10,000
Loan collections and interest accruals	10,000	481,000
Appropriation	3,500,000	5,000,000
Total available	4,510,000	5,491,000
Loan obligations	4,500,000	5,000,000
Balance available in subsequent years	10,000	491,000

Applications were received for 63 rental housing loans for the elderly in fiscal year 1963. During fiscal year 1964, 61 such applications were received through November 30, 1963, and it is expected that applications in fiscal year 1964 and 1965 will increase substantially as the program becomes more widely known.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	27,174	29,554	32,478
	Positions other than permanent	858	803	1,115
	Other personnel compensation	107	294	212
	Total personnel compensation	28,139	30,651	33,805
12	Personnel benefits	2,120	2,366	2,569
21	Travel and transportation of persons	3,304	3,600	3,700
22	Transportation of things	116	130	110
23	Rent, communications, and utilities	1,665	1,705	1,720
24	Printing and reproduction	161	210	210
25	Other services	236	170	170
26	Supplies and materials	124	143	150
31	Equipment	94	119	350
42	Insurance claims and indemnities	2		
	Total obligations	35,961	39,094	42,784

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	4,466	4,591	4,749
Full-time equivalent of other positions	452	467	476
Average number of all employees	4,726	4,952	5,078
Employees in permanent positions, end of year	4,353	4,555	4,452
Employees in other positions, end of year	5,311	5,268	4,605
Average GS grade	6.8	6.8	6.8
Average GS salary	$6,467	$6,807	$6,875

	Direct appropriation	Transfer from agricultural credit insurance fund	Total
Appropriation Act, 1964	$38,925,900	$1,050,000	$39,975,900
Transferred to "Operating expenses, Public Building Service, General Services Administration" for space rental	−95,000		−95,000
Activities transferred in the 1965 estimates to:			
"Salaries and expenses, Office of the Inspector General"	−765,000		−765,000
"Salaries and expenses, Office of Management Services"	−22,000		−22,000
Base for 1965	38,043,900	1,050,000	39,093,900
Budget estimate, 1965	40,284,000	2,500,000	42,784,000
Increase	+2,240,100	+1,450,000	+3,690,100

Summary of increases, 1965

To strengthen servicing of direct and insured loans	+$2,690,100
For increased pay act costs (Public Law 87–793)	+1,000,000
Total increase	+3,690,100

Project statement

Project	1963	1964 (estimated)	Increases and decreases		1965 (estimated)
			Increased pay costs (Public Law 87–793)	Other	
Administration of direct and insured loan programs	$35,961,476	$39,093,900	+$1,000,000	+$2,690,100	$42,784,000
Unobligated balance	29,869				
Total increased pay act costs (Public Law 87–793)		(850,000)	(+1,000,000)	(+50,000)	(1,900,000)
Total available or estimate	35,991,345	39,093,900	+1,000,000	+2,690,100	[1] 42,784,000

[1] Includes $21,411 for mandatory reimbursement to the employees compensation fund for payments made from that fund in fiscal year 1963.

During the past 3 years the loan programs of the Farmers Home Administration have more than doubled in volume with no significant increase in employment. The volume of loans made has increased from $308 to $795 million and collections have risen from $307 to $418 million. This represents a tremendous increase in loan servicing workload. Loans outstanding and now to be supervised and serviced, have risen from $1.2 to $2 billion. By June 30, 1964, loans outstanding will total over $2.5 billion. Despite these large workload increases, the increase in employment has been minimal.

The direct and insured loan programs administered by the Farmers Home Administration are expressly aimed at meeting minimum human needs and are major weapons in the attack on poverty in rural areas.

The 1965 budget estimate for the Farmers Home Administration, in accord with the President's economic and agricultural programs, includes amounts

necessary to administer loan programs designed to improve living conditions and community environment for the young folks in rural homes and areas. Principal objectives of FHA loan programs are:

(*a*) *Strengthen rural communities*

Strengthen the family farm by helping young farmers take over the farms of retiring farmers.

Help farmers obtain additional sources of income through adjustment of resources and the development of recreational facilities, forestry, and shift farming enterprises.

Help associations of farmers and rural residents shift land use into grazing, forestry, and recreation.

Help associations of farmers and rural residents develop adequate water system supply.

Help rural communities develop and carry out plans for economic development.

Help farmers, domestic farm laborers, and rural residents obtain adequate housing.

Help senior citizens in rural areas obtain housing suited to their needs.

Help the "boxed in" farm families acquire the skills needed to compete in the nonfarm labor market and enable them to make a living on a farm with some credit assistance.

(*b*) *Furnish leadership for rural programs that serve human needs and combat poverty*

Farmers Home Administration programs keep farm families from entering into poverty. Loans are made to help farmers threatened with foreclosure to restructure their debts, to enable farmers hard hit by drought, flood, and other emergencies to continue their operations and thus keep these farm families from dropping to a low-income level.

Farmers Home Administration programs help farm families exit from poverty. Loans are made to help family farmers acquire the resources needed for successful operations that will bring these families up the economic ladder.

Farmers Home Administration programs ease "the burden of poverty." Subsistence loans and housing grants make poverty more endurable for those rural families who are handicapped by age, color, education, physical and metal defects or other adverse conditions and thereby unable to escape the poverty level. Such housing grants and subsistence loans bring relief to these "boxed-in" groups and prevent their retreat to urban welfare rolls.

The programs of the Farmers Home Administration operate in step with and with material assistance to the President's program of amelioration of poverty at a minimum cost to the taxpayer. Primarily they are loans and are repaid with interest.

In meeting the above objectives, the agency's workload volume has increased much faster than manpower available for administering its programs. So far, the employees have carried the increased workload by working without pay, nights and weekends, and by giving up annual leave. They cannot be expected to continue to work in this manner. Even if they did, they could not absorb the additional workload resulting from the new and expanded programs.

New responsibilities in the field of financing shifts in land use, recreational enterprises, rental housing for senior citizens in rural areas, farm labor housing, assistance to disadvantaged rural youth and under other authorities of the Farmers Home Administration require new skills and additional manpower, particularly at the field level.

With low-income farm borrowers, it is particularly important to provide good technical supervision and assistance coupled with needed credit, if the borrower is to become successfully established. The complicated financial management problems of many applicants require more skill and more effort today than formerly was the case.

Because of the complexities facing rural people generally, the programs the Farmers Home Administration employees cope with are becoming increasingly difficult and time consuming.

The Farmers Home Administration has tightened management, redeployed personnel, simplified procedures, and stripped work to the essentials. These measures have enabled the agency which had been trimmed down to less-than-adequate size to continue the programs that enable small farmers to make the

adjustments essential to their survival and to administer the programs that aid the disadvantaged rural youth and help provide adequate housing for the rural senior citizens.

The Farmers Home Administration is face to face with the very real danger of taking sizable losses in borrower progress and loan repayments unless these increased funds are authorized. The additional administrative funds requested are needed primarily to strengthen county and State office staffs in the most critical workload areas. The investment needed for this effort will be more than repaid through improved rural family progress, resulting in greater loan repayments in future years.

Mr. WHITTEN. Mr. Bertsch, we are glad to have you here with your associates. Through the years the Farmers Home Administration has become a major part of the Department. You have a wide variety of responsibility. I think your credit service is absolutely essential to American agriculture today. Your housing operations are for the first time providing funds to rural people that they never have before. Now they are in line with what has been available for city people and all of this is to be repaid.

We recognize the growing responsibilities that you have and we feel that you have been doing a good job.

Some of the newer programs which the Administration has been making available to rural areas are under your jurisdiction, also. I think that it offers a real opportunity to keep many people from overcrowding our already overcrowded cities with all the problems that come from overextending streets and sewerage and other facilities which cities have to do. I don't know that you or anybody else is going to be able to keep many small farmers on the farm. I do think the programs that you operate offer an excellent opportunity to keep rural people in the country, even though they work in town. This seems to be wholesome and far more economical for the country than to have them move into populous areas.

I trust that your statement will cover these points so now we will listen to you.

Mr. BERTSCH. Thank you. May I introduce my colleagues again, although I think this committee is well acquainted with them.

On my right is Mr. Holliday, our budget officer; on my left Mr. Higbee, the Deputy Administrator. You have become acquainted with Undersecretary Murphy. We are delighted that he can be here with us today. At the extreme left of the table is Mr. Polk, Assistant Administrator for real estate loans. In the back row on the left is Mr. Highfill, Assistant Administrator for operating loans, and Mr. Howard Campbell, Director of the Farmers Home Division, Office of the General Counsel.

I should also like, Mr. Chairman, to report that Assistant Secretary Baker asked me to bring his regrets. He is hospitalized, as I am sure the committee knows. He is getting along well and we hope he will be back on the job within a short time.

Mr. WHITTEN. We are glad to know that he is getting along well. We have made inquiry from day to day. We are glad to hear of his progress.

General Statement

Mr. Bertsch. Mr. Chairman, members of the committee, the Farmers Home Administration loan items in the budget estimates for fiscal 1965 are essentially the same or are lower than the amounts available in the current fiscal year. These estimates reflect the efforts made in the preparation of the budget to keep all programs at the absolute minimum level. The same diligence was exercised in the development of estimates for salaries and expenses.

Each year that I have enjoyed the privilege of appearing before this committee, I have reported on the expanding demand for the services of the Farmers Home Administration and the broadening of our activities by such measures as the Consolidated Farmers Home Administration Act of 1961, the Food and Agricultural Act of 1962, the Housing Act of 1961, and the Senior Citizens Housing Act of 1962. Economic pressures on family farmers and the rural communities of which they are a part, plus the broadening of our authorities, continue to create a need for the type of assistance we render that is far and above our capacity to handle.

We take great pride in the growth that has taken place in our capacity to serve family farmers and rural America during recent years. Last year the funds we advanced totaled more than $795 million. Some 220,000 families used our credit services during the year.

Literally hundreds of thousands of rural people today are farming better and living better because of the aid we have been able to provide. But for all of our feelings of accomplishment we are sometimes staggered by the all too apparent need for supervised credit that is not yet fulfilled.

MANPOWER AND ADMINISTRATIVE SERVICES STRAINED

We are also extremely concerned about the heavy workload our field staffs are carrying. For 3 years our people have stepped up the volume of their activities and taken on new jobs. In addition, with each year that passes, they find the problems that are brought to them by family farmers more difficult to solve. The planned program for fiscal 1965 will further increase the workload of our State and county employees. In fiscal 1965, they will be expected to advance funds totaling $985 million and service some $2,400 million in outstanding loans. To bring some relief to our field staff we are requesting a slight increase in administrative funds.

DIRECT LOAN ACCOUNT

I will discuss first the estimates for farm ownership, soil and water conservation, and operating loans. These three types of loans are made from the direct loan account established by the Consolidated Farmers Home Administration Act of 1961. In addition, as members of this committee know, farm ownership and soil and water conservation loans are made from private funds on an insured basis.

Through the use of the direct loan account, collections of principal and interest can be reloaned in amounts annually approved by the Congress. At the beginning of fiscal 1965, there will be an estimated $113,300,000 on hand in the account. Based on the current collection trend, $339,619,000 will be added during fiscal 1965 making a total of $452,919,000 available for lending. Our total request for loans to be made out of the account during fiscal 1965 amounts to $325 million.

Thus, it appears that in fiscal 1965 all of our estimated needs for direct loans for farm operating expenses, farm ownership, and soil and water conservation can be obtained from funds repaid on loans previously made. We are not requesting any new appropriations for these loan programs.

Mr. WHITTEN. Let me interrupt to say that I am mighty glad to see that. I thank the Department for recommending, and the Congress for passing the legislation to make this possible. There have been times since I have been chairman of this committee when those opposed to the programs of the Department have tried to list loans as operating expenses, just to group them together. I have seen many such instances in the press, where they use loans which were to be repaid as though that were an annual operating cost of the Department, and to take no cognizance of the fact that repayments or collections might equal, as it does here, the amount that might be loaned.

Again, the situation is no different. If these funds you collect had gone directly into the Treasury, and then appropriated to you, the picture would be the same except not shown the same way.

I think it helps for the public to get a true picture by this approach.

Mr. BERTSCH. We certainly agree with you, Mr. Chairman. If I may, we have a few charts here I would like to have Mr. Polk show. We have prepared this chart which undertakes to reveal the sources of funds from which our proposed 1965 loan program will take place. The tall column on the left represents the $561 million of insured loans which we propose to make in 1965. These are loans provided by private investors and insured by the U.S. Government.

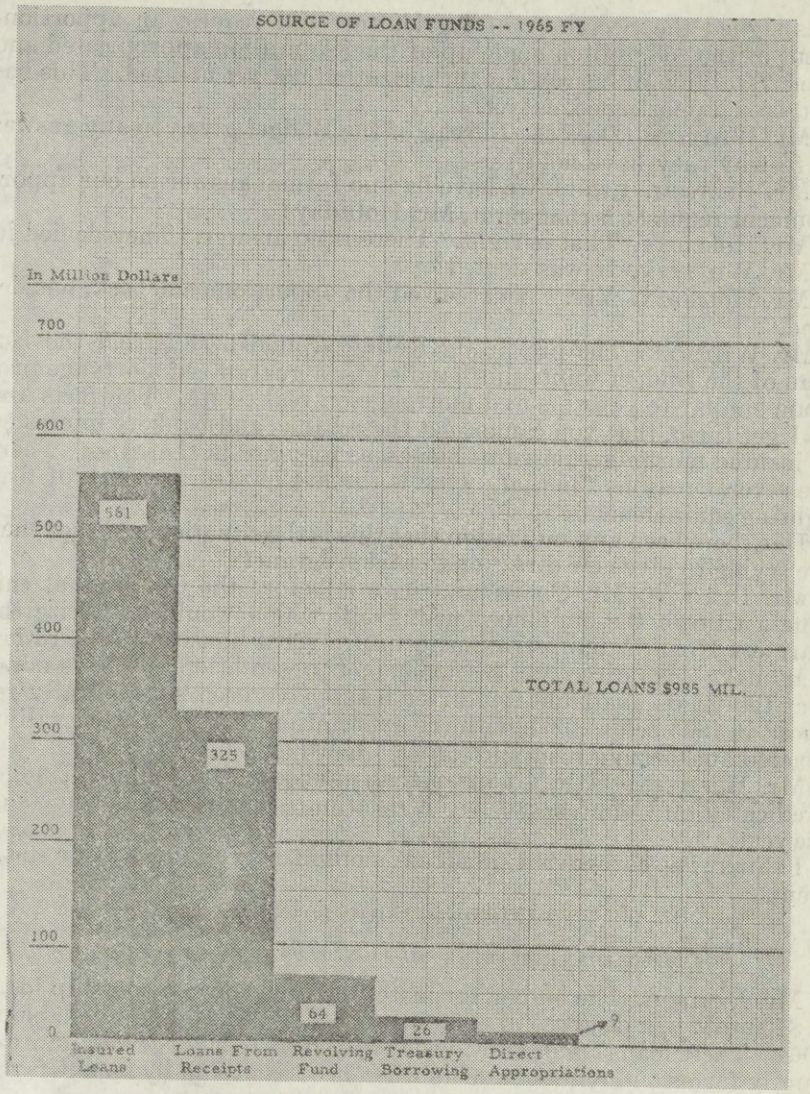
The second column represents the $325 million contained in our 1965 budget proposal, which represents the loans which will be made from this direct loan account derived from collections on loans previously made without any new obligational authority being involved.

The third column represents the $64 million which we propose to loan for emergency loans from collections from prior loans deposited in the revolving fund. This, too, does not involve any new obligational authority.

The fourth column represents the $26 million of Treasury borrowings already authorized which we expect to utilize during fiscal 1965.

The last column represents the $9 million of direct appropriations which are involved in the 1965 budget request.

(The chart referred to appears on following page.)



USE OF SPECIAL 1964 RURAL HOUSING APPROPRIATION

Mr. WHITTEN. Since money is involved here, I think it appropriate to interrupt at this point to raise this question.

Last year the Congress provided $25 million in extra funds for the revolving fund for rural housing. At the last report I had, the Bureau of the Budget had not released any of that money for your use. Is that still the situation?

Mr. BERTSCH. That is still the situation.

Mr. WHITTEN. Has the Department requested the release of any of these funds?

Mr. BERTSCH. The committee report in connection with the 1964 appropriation bill directed the Secretary of Agriculture to utilize not only the $25 million but also the balance of the borrowing authorization that remained available—I believe I am quoting correctly—"as expeditiously as the need indicated." As soon as the appropriation bill

was signed the Secretary of Agriculture did request an apportionment of the $53 million made up of the $25 million appropriated and the $28 million of borrowing authorization not yet utilized. This has not been apportioned as yet.

Mr. WHITTEN. Does the Bureau of the Budget give you any answer as to why they have not?

Mr. BERTSCH. I think we have had no formal answer on our apportionment request; is that right, Mr. Holliday?

Mr. HOLLIDAY. That is right. There is no answer. They denied it.

Mr. WHITTEN. It was denied?

Mr. HOLLIDAY. Yes. We received the apportionment back, but denied.

Mr. WHITTEN. The prevailing feeling around here is that the Bureau of the Budget wants this handled by a guaranteed mortgage program similar to your insured mortgage on real estate. The facts are, as I get them, that you cannot get these banks and bankers interested in insured mortgages on rural homes, as they are in the cities. There are several reasons for that. One is the fire hazard and lack of fire-fighting equipment.

Has there been any indication that this is the situation and that they are trying to give new direction to this program?

Mr. BERTSCH. Mr. Chairman, there is before the Congress at this time a title in the ominbus housing bill which would authorize the Farmers Home Administration to insure rural housing loans, rather than make them directly. In our budget presentation you have noted that the funds available for direct loans have been substantially reduced in 1965 below 1964, with the expectation that legislation will be enacted authorizing insurance of such housing loans.

Mr. WHITTEN. I said earlier that anybody who builds a budget predicated on Congress passing legislation is one of the optimists of the year.

I think that covers that point. We might let you finish your statement.

FARM OWNERSHIP LOANS

DIRECT LOAN REQUEST $35 MILLION BELOW CURRENT YEAR

Mr. BERTSCH. The budget estimate for direct farm ownership loans is $10 million, a decrease of $35 million below the amount available in 1964. These loans are used by owner-operators to enlarge and improve family farms and refinance debts when necessary, and by tenant farmers to acquire family farms.

DEMAND FOR FARM OWNERSHIP LOANS

Mr. BERTSCH. The budget estimate for direct farm ownership loans enabled our farm ownership loan program to move forward. In fiscal 1963 we made 14,407 farm ownership loans totaling $221,756,000. This loan volume was more than five times the $43,772,000 advanced in 1960. The experience of last year demonstrated, to a degree never possible before, the unfilled need for this type of credit.

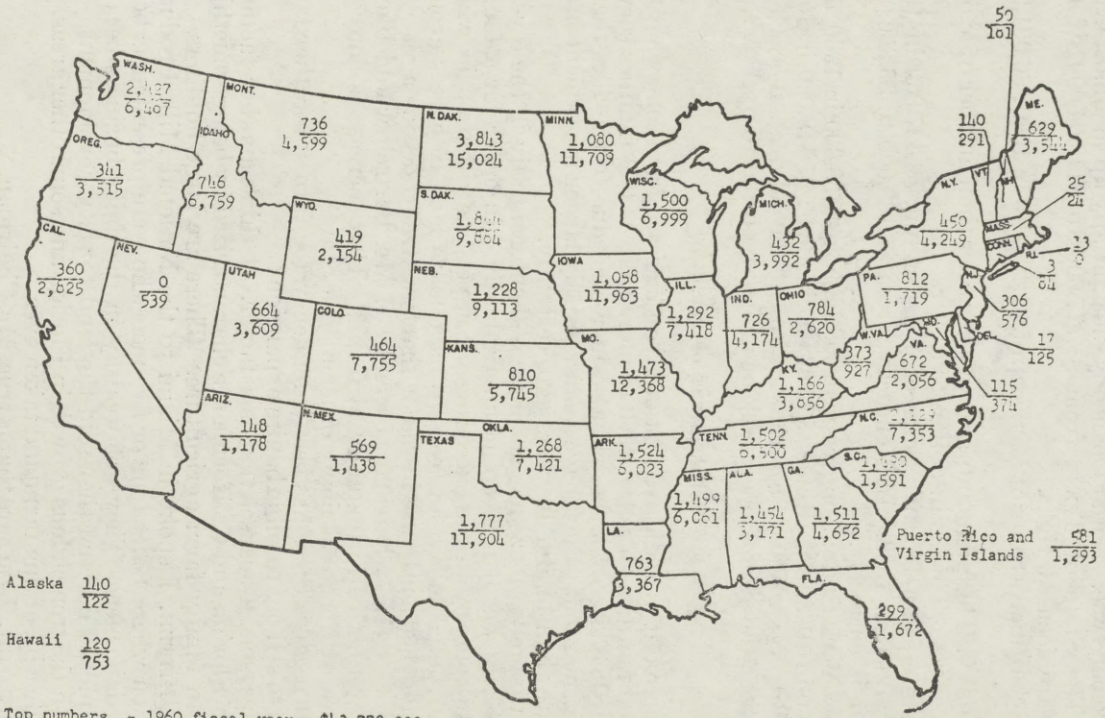
If Mr. Polk will show the next chart—and incidentally, we have these charts in reduced size for the members of the committee.

Mr. WHITTEN. We will be glad to have them included in the record.

Mr. BERTSCH. Perhaps you can see them more easily than you can read the large charts.

(The map referred to appears on following page.)

Farm Ownership Program Expands (in Thousands of Dollars)



Top numbers - 1960 fiscal year - $43,772,000
Bottom " - 1963 fiscal year - $221,756,000

U. S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Mr. BERTSCH. This chart shows, by States, in millions of dollars, the amount of money loaned, the red figure being for fiscal 1960, and the lower blue figure being for fiscal year 1963.

The difference between the 2 years is the difference between $43 million plus, and $221 million plus.

In 1960 we served 2,966 families; in 1963 we served 14,407 families with this loan type. Dollars loaned is substantially up in almost every State. The State of Texas from $1,777,000 to $11,904,000, if my bifocals are focused right.

In the chairman's State of Mississippi, $1,499,000 in 1960; $6,061,000 in 1963.

Mr. HORAN. Those amounts are money, rather than number of loans?

Mr. BERTSCH. That is in dollars; yes, sir.

In Congressman Horan's State of Washington, $2,427,000 in 1960 and $6,487,000 in 1963. In Kentucky, from $1,166,000 to $3,856,000, if I read it correctly.

In New York State, Congressman Addabbo's, $450,000 in 1960, and $4,249,000 in 1963. In Illinois, $1,292,000 in 1960; $7,418,000 in 1963.

Mr. WHITTEN. What does that represent, largely, an increase in farm values, the size of operation, or money required to operate?

ENLARGEMENT OF FARMS

Mr. BERTSCH. It indicates first of all an increase from somewhat less than 3,000 families served in 1960 to more than 14,000 families served in 1963. The size of loans has also increased due to the fact that a family farmer today must have a substantially larger investment in his real estate than he did 10 years ago, certainly.

Our average loan size has not increased substantially in the 3 years reflected here, but it is creeping up gradually. In order for a family farmer to compete in the exceedingly competitive situation in which he is confronted today, he needs to have more land resources around him to more efficiently use his labor than was true a decade ago.

Mr. HORAN. Mr. Chairman, I wonder if Mr. Bertsch would like to comment on both Florida and California. That increase is not commensurate with a great many other of the States.

Is that because there has been a tendency for farms in rather large numbers to sell out to suburbanite expansion?

Mr. BERTSCH. I suspect that is a factor. I think another factor is that both Florida and California are characterized by being something other than family farm agriculture. There are large holdings.

Mr. WHITTEN. I spoke in Miami to the National Milk Producers Federation where I met four or five men who were presented as being wealthy dairymen. They got wealthy in the dairy business because the city moved out and they sold the land for city development.

So with the tremendous growth in Florida and some other areas, you have quite a bit of fine farmland taken over.

Mr. BERTSCH. I am sure that is true, Mr. Chairman.

Mr. MICHEL. Why would the only State in the Union where the trend would be greater be a State like Alaska, where there is such a need for expansion and development?

Mr. BERTSCH. Our operations in Alaska, Congressman Michel, are certainly modest. The figure in 1960 was only $140,000; in 1963, $122,-

000. Agricultural opportunities are truly limited in Alaska. The cost of production is exceedingly high. There aren't very many family farmers in the State of Alaska as yet.

I think the trend there, if it can be called a trend, is made up with the difference of having made maybe eight loans and six loans. It is not much of a program. We have only three offices serving the entire State of Alaska—one in the Kenai Peninsula, one in the Tanana Valley near Fairbanks, and one in the Matanuska Valley at Palmer.

Our program in Alaska is primarily a housing program, not substantially an agriculture program.

Mr. MICHEL. What is the average size loan in 1963 as against 1960?

Mr. BERTSCH. Do you have that quickly at hand, Mr. Polk?

Mr. POLK. Our average size in 1963, in Alaska, you are speaking of——

Mr. MICHEL. No, nationally.

Mr. POLK. In both 1963 and in 1960 it ran about $16,000.

STRONG DEMAND

Mr. BERTSCH. Demand for farm ownership loans continues strong. During the current fiscal year the volume of loans made from the direct loan account is greater than the amount advanced during the same period last year. In addition, more than two-thirds of the amount available for insured loans has been used. Applications on hand December 31 totaled 14,700, and new applications are being received at the rate of 3,000 a month.

An adequate supply of direct loan funds is essential to the proper administration of the farm ownership loan program. The availability of direct loan funds enables us to test the money market to determine the minimum rate at which funds can be obtained for insured loans. In this testing process there are periods when insured funds are not available. Without direct funds we could not be as diligent in seeking the minimum insured rate.

A sizable demand for farm ownership loans comes from families who need to develop and enlarge their farms to obtain the volume of business needed to survive in this era of narrowing margins of profit. There is also a strong demand for funds to refinance existing debts. Many farmers have entered into land contracts on terms they cannot meet. They need credit to restructure the payment of their debts over longer periods of time on terms realistically tied to their income.

A large number of young farmers depend upon us for the funds they need to take over the land placed on the market by retiring farmers.

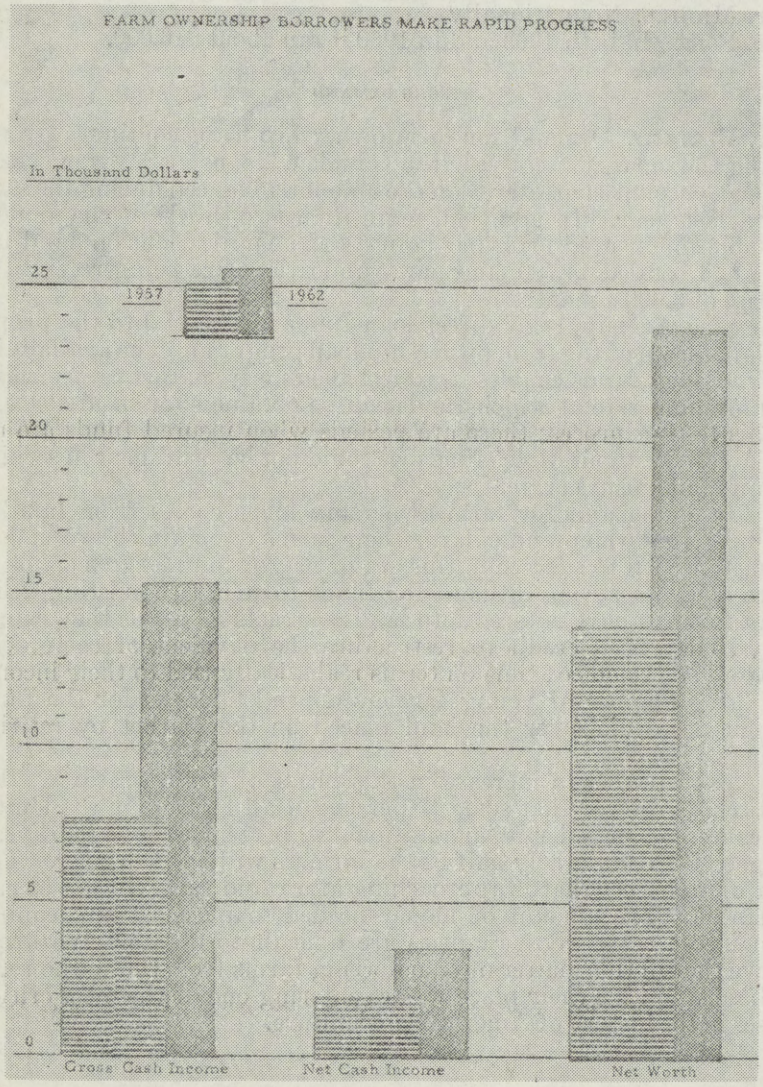
We expect a sharp increase in this phase of our operations. The 1959 census showed that some 17 percent of all farmers in the United States were 65 or older. An additional 22 percent were 55 to 64 years of age. By 1970, nearly half of the farmers will be 55 or over. This shift of resources that is approaching at a rapid rate will not be easy to handle. The amount of money needed to purchase and equip a farm increases yearly. Equities are difficult to obtain. We firmly believe that in this matter of transferring farms from those who retire to those who take their place we are entering one of the most critical phases in the history of American agriculture.

PROGRESS OF FARM OWNERSHIP BORROWERS

A progress report that we made recently on borrowers who received farm ownership loans 5 years ago reflects the impact of these funds and the technical assistance that accompanies each loan. The report, for example, shows that the average borrower was able to more than double his gross income during the 5-year period since he received his loan. This explains why farm ownership borrowers are able to refinance their loans with other lenders within a relatively short period of time.

We have in the next chart undertaken to graphically show this progress made by our farm ownership borrowers.

(The chart referred to follows.)



Mr. BERTSCH. The two columns to the left depict the gross cash income enjoyed by all of the borrowers who have received loans in 1958 for the year before they received the loan. The gray column represents the gross cash income of our farm ownership borrowers in 1957, the year before they became farm ownership borrowers. Their income at that time was $7,684. Five years later, those same borrowers were enjoying incomes of $15,308 as depicted by the black column.

Their net cash incomes increased from $1,950 to $3,609 during the same period. And their net worth increased from $13,945 for the year before they became farm ownership borrowers to $23,891 5 years later.

We feel that this demonstrates the soundness of this approach to resolving one of the problems with which family farmers are confronted.

LOAN REPAYMENTS

Repayments on farm ownership loans continue at an impressive level. Borrowers who still owe balances on their loans have paid 104 percent of the amount due.

SOIL AND WATER CONSERVATION LOANS

The budget estimate for direct soil and water conservation loans is $15 million, the same amount provided for fiscal 1964. These loans finance a variety of soil and water conservation measures, shifts in land use, and the development of rural community water systems. Currently, most of the funds are being used by nonprofit associations formed by groups of rural people for the construction of water systems.

SHARP INCREASE

The amount loaned to nonprofit rural groups, primarily for water systems, rose from $854,500 in fiscal 1960 to $16,985,000 in fiscal 1963. Last year we estimated that we would have association loans in most States by the end of fiscal 1964. We are now processing loan applications in every State except Delaware, Rhode Island, Hawaii, and Alaska. Applications during the first 6 months of fiscal 1964 were up 264 percent over the same period in fiscal 1963.

Mr. BERTSCH. We have another map showing in some selected States the change in activity, in actual dollars, the change in dollars of loans extended for these association loans from 1960 to 1963.

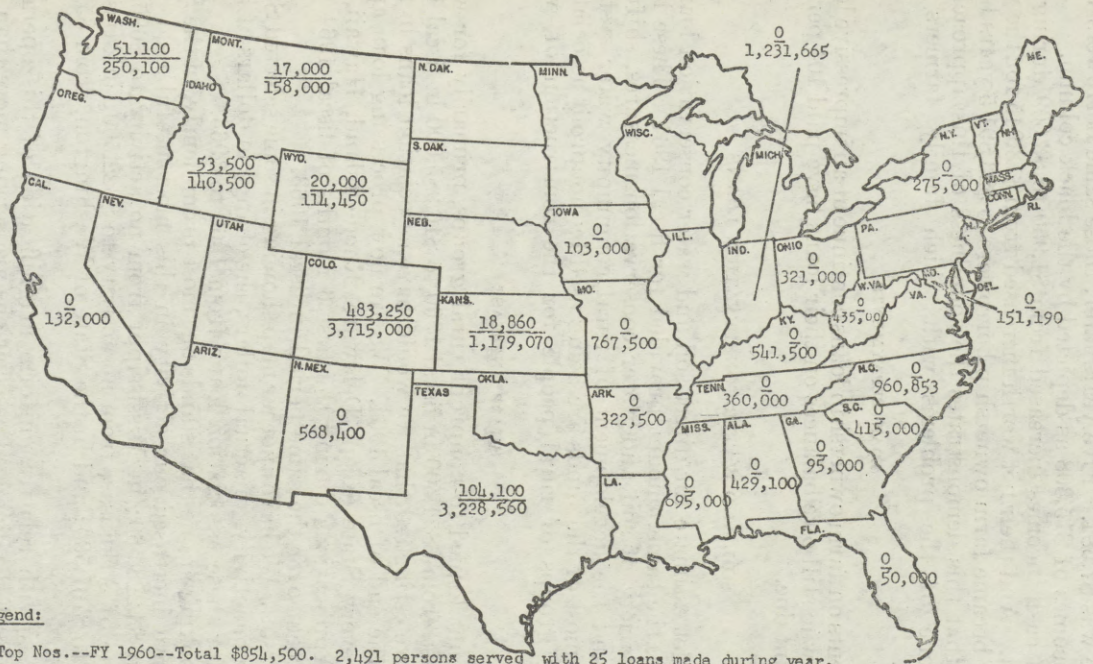
Again looking at one that stands out most prominently, in the State of Texas we increased our activity in this most useful field from $104,100 to $3,228,560; in Mississippi from no activity to $695,000; in the State of Arkansas, from no activity to $322,500; in Missouri, from zero to $767,500; and in the State of Washington, from $51,100 to $250,100.

So it goes with relative uniform magnification of this operation.

Today, 580 FHA-financed associations are serving more than 190,000 rural people. Within the next year these numbers are expected to double.

(The map referred to appears on the following page.)

ASSOCIATION LOAN PROGRAM EXPANDS 1/ 2/



Legend:

Top Nos.--FY 1960--Total $854,500. 2,491 persons served with 25 loans made during year.
Bottom Nos.--FY 1963--Total $16,984,588. 83,892 persons served with 169 loans made during year in all states; 190,798 people served by 580 active loans as of 12/31/63.

1/ In dollars
2/ Activity in cross section of States

U. S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

LACK OF WATER SYSTEMS

Although applications to finance water systems are being received at an unprecedented rate, 481 during the first 6 months of fiscal 1964 compared with 445 during all of fiscal 1963, the bulk of the job of providing an adequate water system for rural families still looms ahead. An estimated 15,000 rural communities still lack central water supplies and distribution systems.

We continue to make good progress in helping rural communities improve the design of systems that will efficiently serve sparsely populated areas. The elected officers of the associations are doing a good job in managing and maintaining the facilities.

SHIFTS IN LAND USE

The Food and Agriculture Act of 1962 authorized loans to shift land use to forestry, grazing, and recreation. During fiscal 1963 loans totaling $1,310,390 were made to 17 nonprofit associations for these purposes. During the first 6 months of fiscal 1964 an additional 10 associations borrowed $1,114,000. These loans are providing new opportunities for rural groups to add economic strength to their communities. For example, grazing associations are emerging as a method whereby family farmers can obtain the added resources they need to combat the price-cost squeeze. Carefully planned recreation facilities are being developed that increase the attractiveness of rural communities both as places in which to live and as vacation sites for urban people in search of outdoor recreation.

OPERATING LOANS

The 1965 budget estimate for operating loans is $300 million, the same amount provided for fiscal 1964.

There continues to be a strong demand for intermediate and short-term operating credit from all areas of the country. In recent weeks the demand for this type of assistance has shown a marked increase.

Mr. BERTSCH. The next map shows the same comparison by States of the amount of funds advanced for operating-type loans. These funds coming from the direct loan account and the emergency credit revolving fund.

Mr. WHITTEN. May I interrupt here again? We hear adverse statements periodically from one source or another. We are familiar, on this committee, as you know, with these matters.

In each of these instances, there has to be a showing that funds are not available from other sources.

Mr. BERTSCH. That is correct, Mr. Chairman, with respect to all of our operations.

Mr. WHITTEN. So that this expansion means that you are still filling a need that others are not meeting since you have to show the lack of available credit prior to making a loan.

Mr. BERTSCH. In every instance, regardless of the type of loan for which the applicant applies, he must provide proof that adequate credit is not available to him from conventional or cooperative credit sources.

Mr. WHITTEN. Go ahead, sir.

Mr. BERTSCH. This map indicates that in 1960 we loaned $221 million-plus for operating-type loans. In fiscal 1963 that was increased to $362 million. This, I should explain, is operating credit rather than operating loans.

We have, for purposes of clarification, included here our operating-loan-type credit, including operating loans and emergency loans. $300 million of that $362 million was operating loans, and the balance, $62 to $63 million, was emergency loans advanced from the revolving fund to farmers in counties designated for emergency loan purposes because of a natural disaster.

FORCES BEHIND THE DEMAND

Several factors influence the heavy demand for operating credit:

(1) The cost of equipping farms for successful operations continues to increase. Investments by farmers in machinery, motor vehicles, and livestock increased from $22.8 billion in 1950 to $33.6 billion in 1963.

(2) The upward trend in farm operating costs and relatively narrow profit margins have made it necessary for increasing number of farmers to resort to credit in order to maintain their operations.

(3) Family farmers generally are operating larger farms with larger volumes of business. They are forced into expanding their operations by competition and the price-cost squeeze. The growth in the size of their business is accompanied by a growth in the need for credit. The average size of initial operating loans to farmers conducting adequate family farming operations was $8,754 in 1963 compared to $3,461 in 1956.

(4) Weather conditions are also a factor in many areas. Seventeen of our State offices reported that partial or widespread drought during the 1963 crop year reduced crop income and shortened feed supplies.

(5) A wider range of farmers can be served because of the broadened operating loan authorizations contained in the Consolidated Farmers Home Administration Act of 1961 and the Food and Agricultural Act of 1962.

The farmers that turn to us today for operating credit plus farm and financial management fall in four groups:

(*a*) Operators of adequate family farms who are in financial difficulty and need help in restructuring their debts and making basic adjustments in their farming operations.

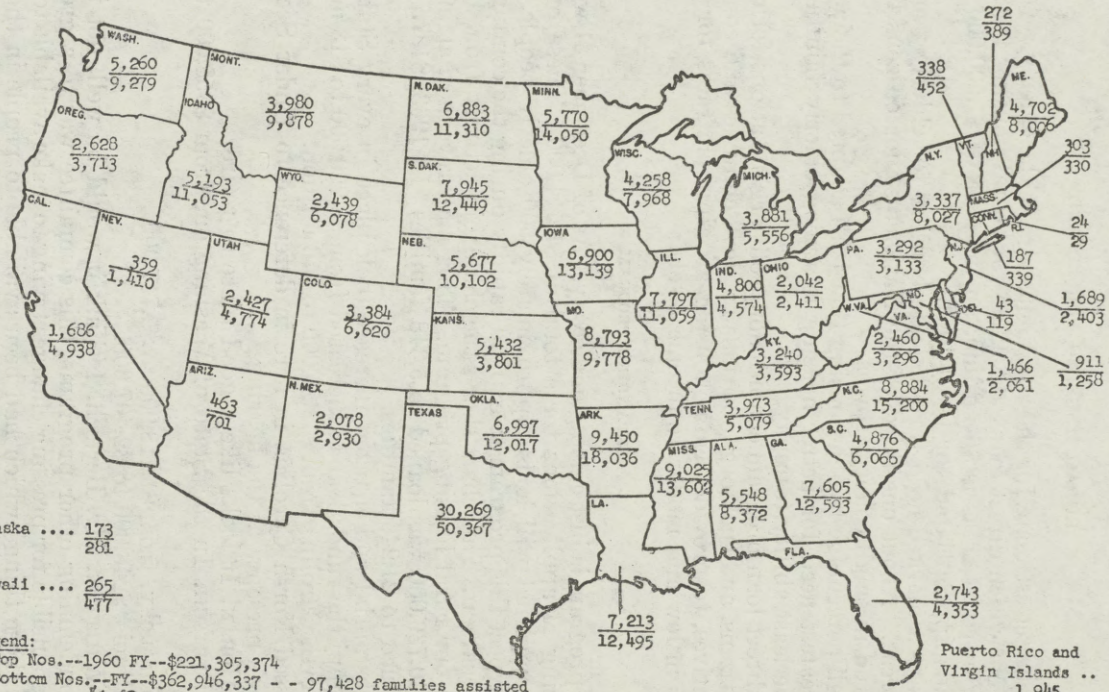
(*b*) Operators of inadequate family farms who need assistance in obtaining the resources required for an adequate income.

(*c*) Operators of part-time farms who need assistance in bolstering the farm side of their income-producing activities.

(*d*) Operators of small farms who because of age, education, and other limitations cannot expect to obtain all the resources they need but who can, with technical assistance and modest amounts of operating credit, improve income and food production sufficiently to make their hardships more endurable.

(The map referred to appears on the following page.)

OPERATING CREDIT EXPANDS 1/ 2/



Alaska .... 173 / 281

Hawaii .... 265 / 477

Puerto Rico and Virgin Islands .. 1,945 / 3,002

Legend:
Top Nos.--1960 FY--$221,305,374
Bottom Nos.--FY--$362,946,337 - - 97,428 families assisted
4 1963
In thousands of dollars

2/ Operating Loans and Emergency Loans

U. S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

REPAYMENT RECORD

Repayments on operating loans remain at a high level. Approximately 95.7 percent of the principal amount that has matured on operating loans has been collected.

RURAL HOUSING FOR ELDERLY

The budget estimate for the rural housing for the elderly revolving fund from which direct loans are made for rental housing for senior citizens in rural areas is $5 million, an increase of $1,500,000 above the funds appropriated for fiscal 1964.

There is a marked need for adequate housing for elderly people in rural areas. About one-third of the Nation's senior citizens live on farms and in small country towns.

A high percentage live in housing that is ill adapted to their needs. The greatest need for better housing is among elderly families who have the least ability to repay.

The direct loan program enables nonprofit organizations formed by local citizens, and such organizations as rural churches and consumer cooperatives, to provide rental housing at minimum rates for senior citizens in low and moderate income levels.

EXPANDING PROGRAM

This program is just getting underway. As of December 31 we were processing 11 applications for a total of $1,514,000. These projects when completed will house approximately 500 elderly people.

We expect this program to expand rapidly during the coming year.

Mr. BERTSCH. This chart shows the change in activity from 1960 to 1963 in our rural housing program. This map reveals that in fiscal 1960, $40,736,000 was loaned to 5,348 families In 1963, $187,740,000 was loaned to 21,246 families.

A substantial and marked increase took place in every State. In Mississippi the funds loaned increased from $3,220,000 to $13 million.

In North Carolina from $1,625,000 to $16 million.

I tossed North Carolina in here in deference to Under Secretary Murphy's presence at the hearing.

Mr. HORAN. It looks like a good place to retire.

Mr. BERTSCH. In the State of Washington, from $958,000 to $2,006,000.

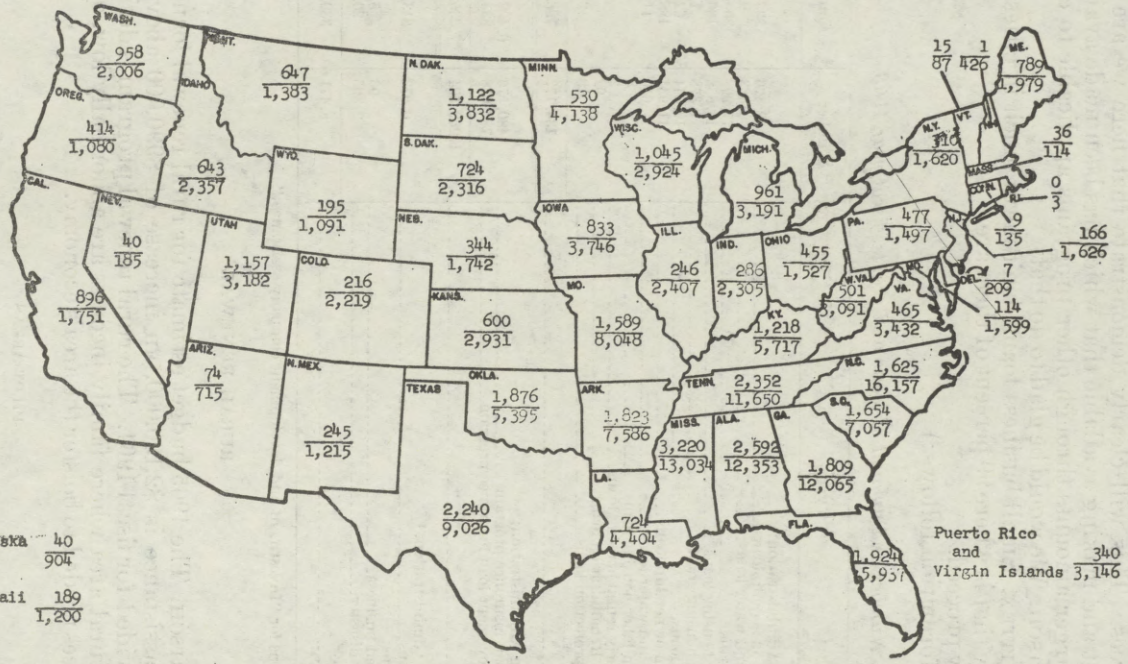
In Kentucky, from $1,218,000 to $5,717,000.

In Illinois, $246,000 to $2,407,000.

Mr. WHITTEN. Mr. Bertsch, I think it would be well, not in any way condemning other programs, this committee was to a great degree responsible for pressing changes trying to make available to rural people those things which had been available to people in the cities for many years. Would it be possible for you and Mr. Grant to get the figures showing how the volume of your business in loans and housing compares with the amount of housing handled by the Federal Housing Authority? That should be available.

(The map referred to appears on the following page.)

MORE RURAL HOUSING LOANS IN EVERY STATE 1/



Top numbers - 1960 fiscal year - $40,736,000 - 5,348 families assisted.
Bottom numbers - 1963 fiscal year - $187,740,000 - 21,246 families assisted.

1/ In thousand dollars

U. S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Also these other loans, I think it would be well for us to have for the record the number of small business loans that have been made available through that agency. I mention this not in any way to condemn, but to demonstrate that here in this program first we require a showing that these funds are not available for these purposes from other sources. This will clearly demonstrate that here we are only moving out and making available that which has been made available in much larger amounts through other programs applicable to cities.

Mr. BERTSCH. We would be glad to do that.

Mr. WHITTEN. Small business loans don't mean much in cities, and in actuality that is where 99 percent of them are.

You may proceed.

(The information follows:)

Number and amount of loans and grants, fiscal year 1963

Type	Number	Amount
Farmers Home Administration:		
Direct farm ownership loans	2,476	$33,402,823
Direct soil and water loans	463	9,993,028
Operating loans	77,992	300,000,000
Direct rural housing loans	19,858	186,371,726
Direct rural housing grants	1,378	1,029,655
Emergency loans	19,344	62,479,239
Insured farm ownership loans	11,931	188,353,175
Insured soil and water loans	610	11,646,533
Insured farm labor housing loans	8	221,450
Insured elderly rental housing loans	2	117,000
State Rural Rehabilitation loans	92	467,098
Watershed protection loans	18	2,102,963
Total	134,172	796,184,690
Federal Housing Administration:		
Mortgage loan insurance program	480,576	6,402,000,000
Home improvement loan insurance program	782,018	833,000,000
Total	1,262,594	7,235,000,000
Small Business Administration: [1]		
Business loans	6,073	313,900,000
Disaster loans:		
Displaced business	93	5,700,000
Regular disaster	2,305	20,200,000
Total	8,471	339,800,000

[1] Excludes loans for "Investment and development company assistance."

RURAL RENEWAL

Mr. BERTSCH. The 1965 budget estimate for rural renewal loans and technical assistance is $2,190,000, an increase of $990,000 above the funds provided for fiscal 1964. The rural renewal program is designed to help a rural area where family incomes are abnormally low, obtain the resources needed to bolster the area's economy.

PILOT AREAS

Recently five pilot areas, one to three counties in size, were designated as eligible for rural renewal assistance. One of our best and most experienced fieldworkers has been assigned to each area to work with the local people in ascertaining the area's needs for technical and financial assistance.

The rural renewal areas are Little River County, Ark.; Washington, Walton, and Holmes Counties, Fla.; Monroe and Appanoose Counties, Iowa; Dallas and Hickory Counties, Mo.; and Mineral and Hardy Counties, W. Va.

No additional pilot areas are planned during fiscal 1965. Funds requested in the budget are to continue the work started during fiscal 1964.

SALARIES AND EXPENSES

Since submitting the budget estimate for salaries and expenses for 1965, we have received $433,100 of the $500,000 authorized in the 1964 Appropriation Act to be transferred to salaries and expenses. Also, a recent budget amendment has reduced the 1965 estimate for salaries and expenses by $100,000. The budget estimate for salaries and expenses for 1965 now totals $40,184,000. The adjusted appropriation for 1964 amounts to $38,477,000. This results in an increase of $1,707,000 for 1965. Of this amount an increase of $1 million is included for additional pay act costs on the existing staff. This leaves an actual appropriation increase for making and servicing loans, 1965 over 1964, of $707,000.

This increase is urgently needed.

The number of farmers and rural residents eligible for the services of the Farmers Home Administration continues to increase. In many areas they are just beginning to use the new authorities.

The lending activity of the Farmers Home Administration more than doubled from 1960 to 1963. Loan servicing also has doubled during the period 1960 to 1964. The number of employees has remained essentially the same.

We welcome the leadership role that has been assigned to us in rural areas development and the additional authorities and resources we have received to serve the credit needs of farm families and rural residents who are unable to obtain adequate credit through regular credit channels. We are, however, critically in need of additional staff to help carry forward these added duties and larger responsibilities.

INCREASED WORKLOAD

The present staff is carrying an extremely heavy workload and is doing so to a large extent by personal sacrifice. The extent of this personal sacrifice is illustrated by the fact that employees continue to put in many man-years of voluntary uncompensated overtime and sacrifice a substantial part of their annual leave.

We are concerned lest the cumulative effect of overwork weaken the quality of the technical assistance that accompanies each loan we make.

As the members of this committee know, the supervision we provide extends far beyond that supplied by other lenders. This work requires more skill and more effort each year. The cost-price squeeze has reduced profit margins to a point where the development of a sound farm plan with the borrower is often a difficult and nearly always a time-consuming process.

FINANCIAL MANAGEMENT DEMANDS

We also find that financial management problems of the farm families who turn to us for assistance increasingly complicated.

Our new responsibilities in the fields of financing associations, rental housing for senior citizens, farm labor housing, and shifts in land use require new skills and extensive training at all levels of operations.

The leadership role that has been given our agency in rural areas development makes continuing and increasing demands on the time of our staff.

When we began the expansion of our activities in 1961 we were operating with a staff that had been substantially reduced in size from the level held in the early fifties. And in the early fifties the scope and size of our operations was only a portion of what it is today.

MANAGEMENT IMPROVEMENTS

Steps that we have taken during the current fiscal year to reduce expenses include a series of management improvement projects to perfect our work measurement system, to simplify and consolidate loan making and servicing procedures, to convert several thousand caseload reports from manual to automatic data processing equipment, to simplify, reduce and streamline various reports and reporting systems and to eliminate all State communication allotment accounts. We are continually and carefully analyzing our operations to effect further savings.

I appreciate the consideration we received from the committee last year, but I am gravely concerned that we remain face to face with the very real danger of taking sizable losses in borrower progress and even loan repayments, unless additional staff is provided in fiscal 1965.

PRODUCTIVITY VERSUS MANPOWER

We have four more charts which I would like to show you quickly, if I may, indicating the relationship between productivity and manpower in the four areas in which we operate.

Mr. BERTSCH. With respect to loanmaking, that peppermint stick column, from 1960 through ——

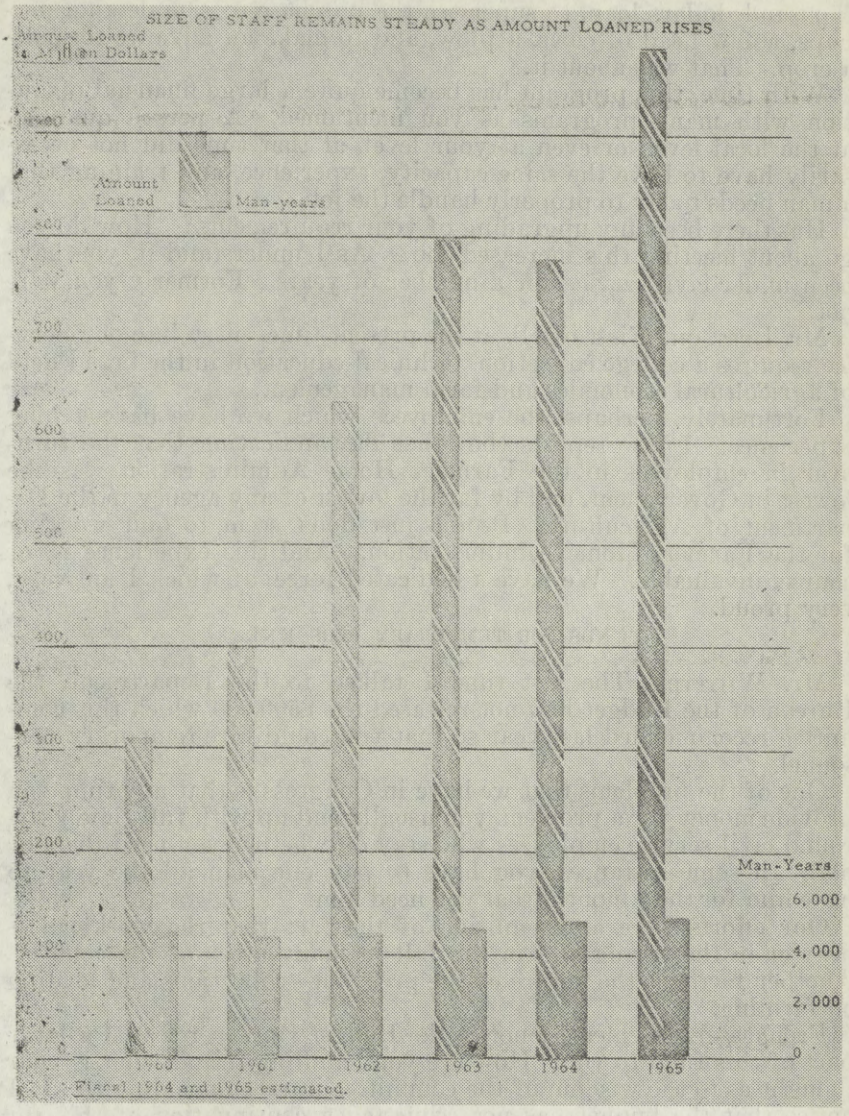
Mr. WHITTEN. As to amounts of loans made—are they liquid?

Mr. BERTSCH. I hope they are liquid.

Mr. WHITTEN. What is the black?

Mr. BERTSCH. The black reveals the man-years of employment. The man-years of employment has remained essentially constant from 1960 to 1965. And the red column indicates the loanmaking responsibility which this essentially same number of people has discharged during these 6 years.

(The chart referred to follows:)



EMPLOYEE TRAINING

Mr. WHITTEN. Last year, we made some reference to the fact that we urged you to be sure that you provided adequate training to your employees that doesn't come from any knowledge of any inadequacies on the part of your people?

We realize that 20 years ago that Farmers Home representative was, primarily, an individual who was qualified to approve a few

thousand dollars loan, to supervise the purchase of a mule and, perhaps, a few head of cows, a plow, and to make an advance to make a crop. That was about it.

With time, this program has become quite a large financial operation with many programs as you mentioned. A person qualified at the local level, or even at your level, at that time did not necessarily have to have the same capacity, experience, and training that a man needs today to properly handle the job.

Has there been any upgrading of your requirements? How do you go about meeting this increased job? As I understand it, you have been under civil service for a number of years. Formerly you were not.

Mr. BERTSCH. First of all, at the present time, entry into our Service requires a college education, technical education in the broad field of agricultural economics and farm management.

Fortunately, perhaps, the employees which we have have a long experience. I saw reports the other day indicating that the turnover in employees in the Farmers Home Administration was the lowest in Government, and by far the lowest of any agency in the Department of Agriculture. People just don't seem to quit working for the Farmers Home Administration. And this experience is, of course, invaluable. We have a dedicated force, of which I am very, very proud.

FUNDS FOR TEMPORARY PERSONNEL

Mr. WHITTEN. The last time I talked to the Department, the Bureau of the Budget had not released the $500,000 which this committee recommended last year so that you could hire temporary personnel.

One of the problems that we have in Congress is that any time you provide money for a problem, you usually end up with full-time year-round civil service employees who stay on whether you need them or not. In some instances, you have to pay one man all the year to have him for the 3 months that you need him.

Our efforts were a recognition of the fact that the workload is heavier in the spring and in the fall in many areas of the country. Another factor is the nature of the program—collections and lending on farming.

From your statement, I notice the Budget Bureau released a large part of this fund to you. How are you handling it and what is your thought as to the wisdom of the committee in recommending this? I notice that the budget has not requested a continuation of this for next year. Was this budget written prior to the release of this fund? Would you go into that?

Mr. BERTSCH. Yes. This budget, in fact, was written prior to the passage of the 1964 appropriation. The $433,100 of the $500,000 which this committee, I think, very wisely provided in the 1964 budget, was released, a portion of it, by the Bureau of the Budget only on March 10. So I can't report a great deal of progress.

Mr. WHITTEN. You might tell us what your plans are.

Mr. BERTSCH. We have anticipated the apportionment of this money somewhat, and in the last 2 weeks of January, I met with each of our 43 State directors and his administrative officer, and we made plans

predicated on the release of this money. Employment of temporary employees is taking place principally in the clerical field.

Mr. WHITTEN. Which we anticipated.

Mr. BERTSCH. Which is where we need it. We have apportioned to our State offices temporary job ceilings. This is also complicated by the manpower ceilings that are imposed, the yearend manpower ceilings that are imposed upon us, so that these appointments cannot extend beyond June 15 of 1964.

I think that both in the area of clerical help and in the area of some supervisory help, some professional help, where we have been able to employ for temporary periods former employees with training and experience, who have gone to farming and can get away from their farm for a few months at certain seasons of the year, this will prove very, very useful to us.

At least, I would like to have the opportunity of checking in with you, Mr. Chairman, and other members of the committee, individually perhaps, 3 months from now, or 4 months from now, and give you an informal report on how well we have done.

Mr. WHITTEN. We would be pleased if you would keep us advised as to developments in this area.

Mr. HORAN. Before we leave that chart, Mr. Chairman, in order for this committee to better understand, I think, in detail what your problem is, we must bear in mind that in operating loans, of course, the amount of the loan has also increased.

Mr. BERTSCH. Yes, sir. In fact, the amount of the loan——

Mr. HORAN. That will be reflected in your operating loans.

Mr. BERTSCH. We realize that we are, perhaps, adding oranges and bananas here, somewhat, because we are talking about all loans, all loan types made. But our operating loan program has accounted for the least of all this increase, that is, you recall from the record, our operating loan program has increased from about $220 million in 1960 to $362 million in 1963.

VOLUME OF LOANS

Mr. HORAN. I think, Mr. Chairman, it would be helpful to the committee if Mr. Bertsch would give us, along with these charts, something for us to consider as we observe these charts, the number of loans and the amounts.

Mr. WHITTEN. Break it down by categories.

Mr. BERTSCH. We would be glad to do that.

(The information requested follows:)

Number and amount of operating type loans by fiscal year

	1960 actual		1961 actual		1962 actual		1963 actual	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Operating loans	69,416	$197,099,999	74,740	$232,100,000	74,677	$275,000,000	77,992	$300,000,000
Emergency loans	9,203	22,964,491	7,941	26,575,651	20,861	63,340,076	19,344	62,479,239
Total	78,619	220,064,490	82,681	258,675,651	95,538	338,340,076	97,336	362,479,239

Mr. NATCHER. Would you yield to me at that point, Mr. Chairman?
Mr. WHITTEN. Yes.

LOSSES ON HOUSING LOANS

Mr. NATCHER. Also I would like to know how your loss ratio on housing loans compares with Federal Housing Administration loans.
Mr. BERTSCH. We would be glad to undertake to get that information.
Mr. NATCHER. You have an excellent record as far as your loss ratio is concerned. I think at ths point in the record it would help the committee if you would show how it compares with the Federal Housing Administration loans.
Mr. BERTSCH. Our losses still are less than two one-hundredths of 1 percent of the principal advanced. Housing borrowers, informally, we have this information for the January 1, 1964, repayment cutoff, and preliminarily it looks as if the record will be fully as good this year as it was a year ago when I was able to report that housing borrowers had repaid 108 percent on the average of the maturities on their accounts.
We still have liquidations running about 1 per 1,000 of the loans made. I think we have had 68 foreclosures in our history. We have about 70,000 to 80,000 borrowers. So this is a record which generally reveals that farm and rural people pay their bills. They are good credit risks.
I think we in the Farmers Home Administration do not want to leave the impression that we are superior performers, although we think we are. But we do want to make it clear that we are delighted to be the instrument by which farm people again get an opportunity to demonstrate that they pay their bills.
Mr. HORAN. It is not an easy field to operate in.
(The information requested follows:)

Losses on housing loans

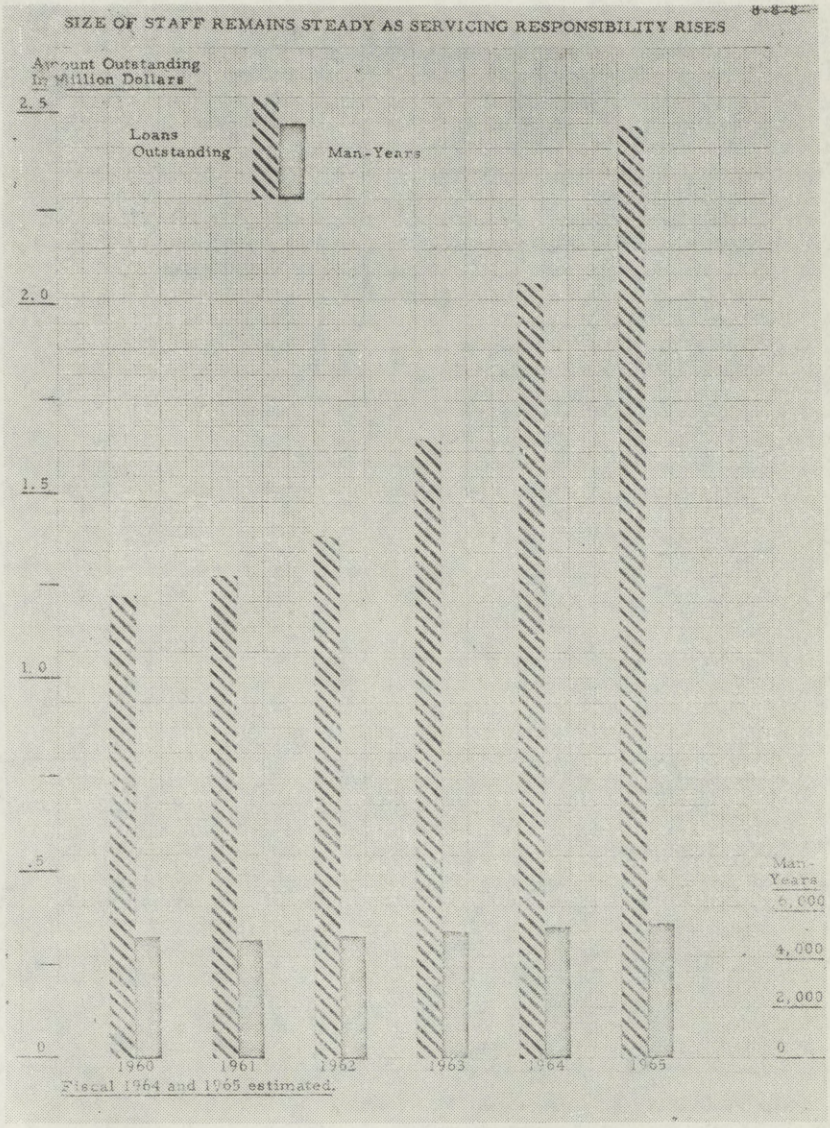
	Cumulative loans, June 30, 1963	Cumulative losses, June 30, 1963	Percent of losses
Farmers Home Administration rural housing loans	$600,000,000	$112,000	0.02
Federal Housing Administration:			
Mortgage loan insurance program	69,091,000,000	173,800,000	.25
Home improvement loan insurance program	15,429,000,000	86,000,000	.56

MANPOWER VERSUS SERVICING

Mr. BERTSCH. The next chart shows the relationship of manpower to the second function we perform, and that is the servicing function. The outstanding balances which we must service have increased from just over a billion dollars in 1960 to $2,400 million estimated in 1965. This, again, is nearly 2½ times the responsibility per man in the field of loan servicing.

The black column again represents the man-years of employment available to us during that 6-year period.

(The chart referred to follows:)

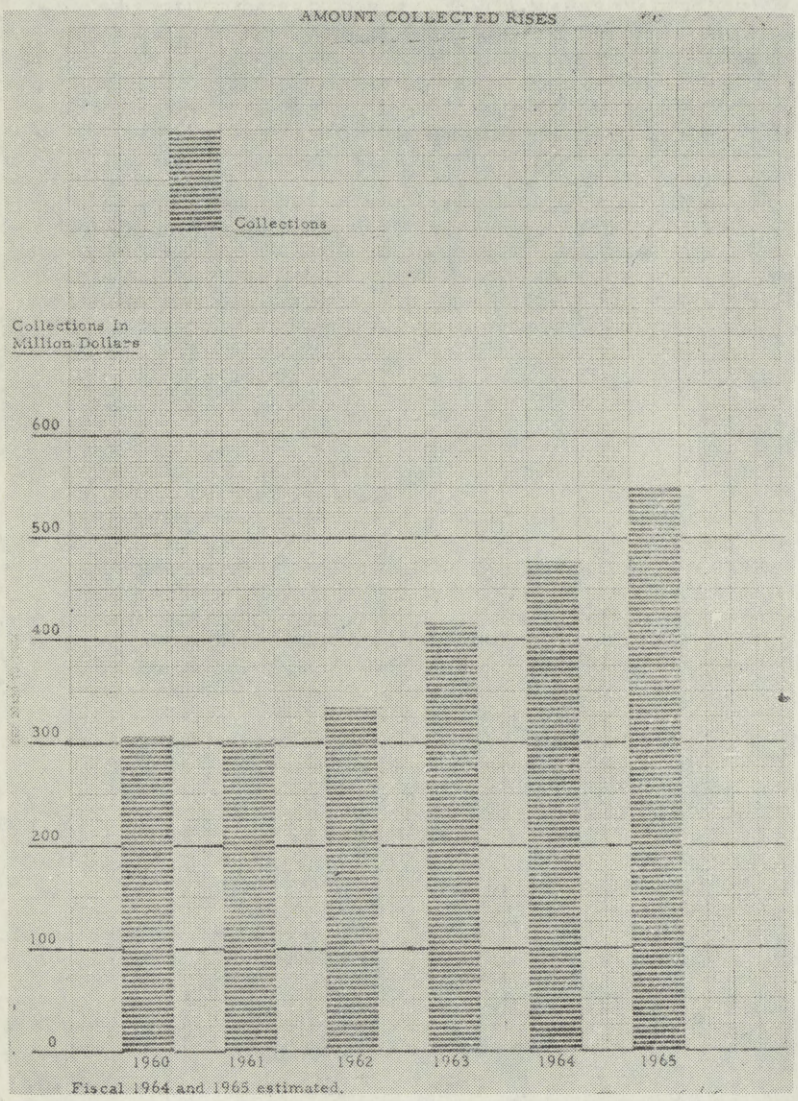


VOLUME OF COLLECTIONS INCREASING

Mr. BERTSCH. The third function that our people perform, of course, is the function of collecting accounts, and this, too, requires manpower. While we didn't line the manpower or man-years up alongside these

columns, it is significant that our collections have increased from $306 million—our task of collecting money has increased from one of collecting $306 million in 1960 to one of collecting $549 million in 1965.

(The chart follows:)



REFERRALS TO OTHER CREDIT

Mr. BERTSCH. Finally, one of the rather unsung functions which we perform, which you, Mr. Chairman, indirectly alluded to is the function of avoiding making loans to people who can get credit elsewhere.

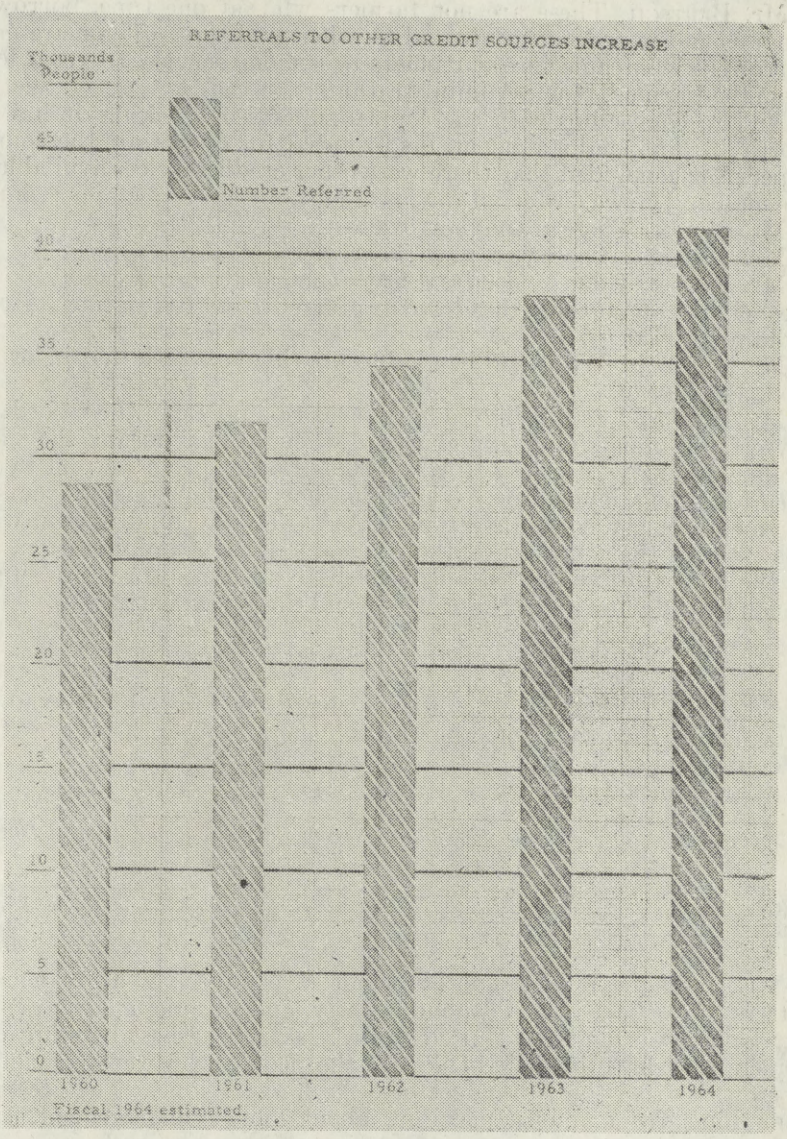
As our volume of activity increased so substantially, it could have

been assumed that we were neglecting this function of counseling people on their credit needs and referring them for their credit needs to other credit sources.

That is why we tabulated this information. It reveals that whereas 28,560 families came through our offices, had credit counseling with our supervisors, and were deemed eligible for credit from conventional sources in 1960, that number increased in 1964 to 41,475.

I think that rather graphically reveals that we in the Farmers Home Administration have not overlooked our responsibility in this respect.

(The chart referred to follows:)



Mr. HORAN. I think you are to be commended.

Mr. BERTSCH. That, Mr. Chairman, concludes our testimony.

Mr. HORAN. Mr. Chairman, if I may comment on the last chart, I think it is essential that we bear in mind that the type of loan made by the Farmers Home Administration, that we, on this subcommittee, do expect a high degree of servicing of that loan while it exists. This, in itself, costs money and is partly responsible for the high administrative costs of running this loaning agency.

Of course, when they are turned over to other credit agencies, that expense diminishes, if it doesn't entirely disappear.

Mr. BERTSCH. These are not farmers who, at one time, borrowed from us and were later graduated to other creditors. These are nonborrowers who came into our offices to get our service, to get a loan from the Farmers Home Administration.

And in counseling with the county supervisor, looking at his net worth, his financial statement, his proposal for operating, the county supervisor concluded that there were other credit services available to the man and he was referred for his credit, initially, to another source.

Mr. HORAN. These are not borrowers?

Mr. BERTSCH. These were never borrowers.

Mr. HORAN. I don't withdraw my commendation. I would like to see a chart now of those that have graduated from the Farmers Home Administration.

Mr. BERTSCH. We would be glad to provide you with that information, Mr. Horan.

Mr. HORAN. I would like to have it, at this point, in the record. I myself, misunderstand this chart. I thought you meant they had graduated. We have had R.A.A.C.P. and other programs out in my area for a long, long while. Those that borrowed originally from the Farmer Security Administration, R.A.A.C.P., and finally from what grew out of that experience, the Farmers Home Administration, are at the bottom of the credit adequacy list and they do require supervision by the county and State offices, and that is expensive.

GRADUATION TO OTHER SOURCES OF CREDIT

I do know that there comes a time when they do graduate from the category of Farmers Home borrowers where they do have a certain advantage in some ways.

(The information requested follows:)

Number of individual borrowers graduated from Farmers Home Administration, fiscal years 1960–63

1960	27,217
1961	24,505
1962	23,869
1963	26,584

Mr. BERTSCH. We have within the last year received a great many letters of testimony, quite spontaneously, and unsolicited from country bankers around the United States, saying the best banking customers they have in their banks are the people who were previously borrowers from the Farmers Home Administration. "They learned something from your supervisors about money management, they

learned something about budgeting, they learned something about how to present their credit needs to their bank. They learned something about credit responsibility. And we are glad to have them as our customer today."

USE OF THE COUNTY COMMITTEE

Mr. HORAN. I don't want to prolong this, Mr. Chairman, but I do want at this point to pay a compliment to my county committees that also pass on these. They have been of great help to your county people. I have seen people who wrote me letters about how badly they were treated by the Farmers Home Administration. When they got into it, some confusion of total information was found, and the county committee knew them, they were neighbors, and were capable of straightening it out. It is to the credit of the organization.

VALUE OF FHA PROGRAM TO GRADUATES

Mr. WHITTEN. In that connection, I have noticed the recommendations of the President earlier about efforts to do something about poverty in the Nation. I commented earlier that that is a worthy objective, and one that certainly we, as a Nation, should be interested in. However, we also have the problem of conducting our affairs so that we help people stay out of that category of poverty.

In considering the fact that the Government apparently is going into some type of program to strike at poverty and that there will doubtless be rural programs as well as those from cities, I couldn't help but recall the experience this committee had with the Farm Security Administration, your predecessor, and later with the Farmers Home Administration. That is the fact that those who have graduated from your own service proved to be very fine customers for the banks because of the training that they have had from your supervisors.

One of the finest things that I have seen in my experience in Congress has been the very excellent job that wives of your borrowers have done. The success is not limited there, because for all the rest of us, a man's wife has a great deal to do with his success. Somebody said that a woman could break any man by what she threw out the kitchen door in the way of wastes.

HOME MANAGEMENT SUPERVISORS

For many years this committee insisted and kept your women supervisors on the job and in the budget against the wishes of the Administration.

Perhaps I am more aware of that than some of the other members here. I come from an area where after the Civil War we had land and people who were accustomed to operating farms. We had plenty of labor that was certainly freed from slavery, and had nothing but their hands—no capital, no know-how—and we had to tell them everything. As a result, the sharecropping system grew up. It was almost a necessity at that time. On the one hand, one crowd didn't have any labor or capital; and the other crowd didn't have anything except their hands with which to work.

As a result of that the sharecropping system came down through the years. The landlord furnished everything, including a place to live, food, and clothing. The labor in turn furnished the labor and at the end of the year they divided whatever profits were made.

The point is that about the time the Farm Security Administration was set up we had lots of real poverty and lots of sharecroppers. With time that system has gradually faded out, largely because of the influence of Government through the Farmers Home Administration.

If the present administration is going to go back into the business of trying to do something about poverty in rural areas use of the home management supervisor should be considered. I don't mean to detract in the least from the very wonderful job that county agents and home demonstration agents do, but they simply don't have the time, if they do their job with the more prosperous people in the area where their services are spread over the whole county. We need to give the detailed supervision to the household budget that these women supervisors with your agency formerly gave.

One or two officers in my county were Farmers Home Administration borrowers years ago. Successful people know that they are one of the best credit risks in the area.

But I don't know of a single case where, in my own opinion, your women supervisors didn't contribute as much by advising and counseling through the wife, as your county supervisor ever did with the man.

I think the records will show that this committee, for at least 5 or 6 years, kept insisting that those women workers stay there. If we are to do anything in rural areas, I just don't know of any place we could find a finer example of results for your effort than in that Farm Security Administration.

I believe, Mr. Bertsch, you have been with this work long enough to remember and to know all about that; have you not?

Mr. BERTSCH. Yes, indeed.

Mr. WHITTEN. Would you trace the history on this and indicate how you would reactivate this work?

Mr. HORAN. Weren't they home visitors?

Mr. BERTSCH. We called them home management supervisors.

Mr. WHITTEN. If the Government is going to get into something like this, this committee ought to do what it can to see that it gets into it only in a proven way, which I think this is.

Mr. HORAN. The more politics we keep out of this program, the better off we are all going to be.

Mr. BERTSCH. Mr. Chairman, I find myself in complete agreement with your appraisal of our home management service throughout the years.

At one time we had as many as 2,700 home management supervisors on our staff. I think about 1948 to 1949 they were substantially reduced and by 1953 were completely phased out on the basis of other manpower requirements having what was judged a greater priority.

In the last 3 years we have always been in precisely that condition, as the charts we have been discussing reveal. With manpower available to us we had to choose as to whether to make loans, to service outstanding accounts, to make collections with farm management trained employees, or whether we could afford to reach down

to what seemed to us to be a lower priority, perhaps inaccurately but I assure you honestly, to the home management people.

In the past year or two we have had many conversations, both in the Farmers Home Administration and within the Department of Agriculture, as to what role counseling of this sort could play with the group of people to whom we make loans. We have aspired to the time when we would be able to again, on some modest basis, at least, restore this service.

There are 870-some counties in the United States, rural counties, which have been designated by the Area Redevelopment Administration as 5(b) counties, counties of high unemployment, high underemployment on farms and low median incomes.

We are undertaking to give special attention to the residents of those particular counties, because we think the fact that they are characteristically low in income means that they need our services perhaps more than the counties alongside them.

In response to your request, we will provide for the record a statement as to how we would propose to reactivate the services of home management supervisors.

(The statement follows:)

We would propose reactivating this service on a modest basis to the extent that salary and expense funds could be made available for this purpose. The areas in which we would reinstate this service would be the 5(b) counties referred to where there is high unemployment, high underemployment on farms and low-median incomes. To provide 140 home management supervisors for these areas would require approximately $1 million in salary and expense funds. We would plan to place a home management supervisor employee or two on our national staff, one on each of the State staffs serving the 5(b) areas and the remainder in county offices to work with individual rural families who need our services in those areas.

It would not be possible to reactivate this service within the salary and expense estimates for 1965 as the funds contained in these estimates will be required to handle the agencies loan making and servicing responsibilities.

Mr. WHITTEN. Along this line, and my personal reference is to be excused, I trust—I grew up on a farm where we had 12 to 14 families. I have seen many, many people who at the end of the year would be paid more money than they had spent all year, and that money in turn would last them less than 2 or 3 weeks. They would be back in debt by the first of January again. I have seen it happen many, many times. It was more usual than unusual.

There are just so many things like that that require some thought and effort. For most of the people that I know who are able bodied and work, it is simply a matter of management.

There are some able bodied who just simply don't wish to work. I don't know what you can do about that. Of course we have some who are disabled and cannot work. But among those who work in any section of the country, I think they do fairly well if they manage what they do make with the thought in mind of making some accumulation or getting somewhere.

Again, I direct attention to the fact that your service is responsible for available credit and available supervision. Your Agency is charged with these responsibilities now and if they are tied together I think perhaps some real result could come from it. But to set up a new agency—I don't see it.

Mr. Secretary, you were not here when I raised this point before. I asked about the Indiana illustration under "Resource conservation and development"——

Mr. HORAN. That is not listed here.

Mr. WHITTEN. In that area, under this program of the Department, I raised the question—if you have somebody handling watershed development and representatives of the Farmers Home Administration, the Soil Conservation Service, the agricultural conservation program, the Extension Service, and a home demonstration agent, where in the world will you find to put some superduper new group, or what would they do except get in the way? That is a serious question that I asked.

Mr. MURPHY. I don't believe I understand, Mr. Chairman, what new group it is that you have in mind.

Mr. HORAN. Resource Conservation and Development, Soil Conservation Service.

Mr. MURPHY. I do not understand that this contemplates any new group. There are two types of projects, I think, in many respects similar, that are aimed at developing the rural economy. In the one case we are calling them rural renewal areas, where the leadership is taken by the Farmers Home Administration. In the other case, we call them resource conservation and development projects, where the leadership is taken by the Soil Conservation Service. In either case, so far as I know do we contemplate setting up any new agency within the Department of Agriculture.

Some question has been raised about the similarity of these projects and having them in different agencies. It seems to me that there is some virtue in having the two agencies, each trying in its own way to do these things, though there is some similarity. If we can get some healthy rivalry and competition between them to see who can do the best job. I think this might be helpful.

Mr. WHITTEN. Having raised this myself, I think this would be a good time for you, since you represent the Secretary's office, to see that the record carries a complete description of the three of them so we can see what is involved here.

Here are the three. Soil Conservation Service, which has the resource conservation development; ASCS, crop land conversion program; and FHA, rural renewal.

Mr. MURPHY. We will be very glad to do that, Mr. Chairman, and try to state the relationship between them and I repeat that in none of the three cases I believe is it contemplated that there will be any new administrative agency.

(The information follows:)

RURAL RENEWAL PROGRAM

The rural renewal program is designed to assist rural people through local public agencies to come to grips with all of their economic and social problems and, in doing so, make maximum utilization of human as well as natural resources. Rural renewal assistance is to be extended to disdvantaged low-income rural areas where the ongoing programs of Federal and State agencies have not had sufficient authorizations and scope of responsibility to bring about economic restructuring and revitalization, and where much more than a program for the conservation and utilization of land resources is needed to correct

the adverse economic and social conditions that exist. Rural renewal assistance is for disadvantaged low-income rural areas where the only answer for economic recovery lies in reorganizing, recapitalizing, restructuring, and otherwise renewing the economy.

The objective of rural renewal is to eliminate chronic rural underemployment, strengthen family farming, increase farm and nonfarm income, restructure community and public facilities and services, and otherwise foster a sound and progressive economy.

In areas designated for rural renewal, the local public agency responsible for the program will develop a plan supported by the citizens of the area in which objectives will be outlined that they expect to achieve with the program. Such plans would be related to specific projects which would be undertaken, such as establishment of family farms, raise farm income, create job opportunities for underemployed and unemployed farm and nonfarm rural residents, and otherwise upgrade and stabilize the essential social and economic aspects of the area.

This will include assistance in planning all phases of social and economic development and for making maximum utilization of all the programs of Federal and State governments. It will also include securing specialized technical assistance for planning, surveys, feasibility and engineering studies, and related activities. It will provide assistance in securing loans from other agencies as well as assistance in developing and processing long-term low-interest rural renewal loans to suppement existing credit facilities.

Resource Conservation and Development Project

The Food and Agriculture Act of 1962, section 102, Public Law 87–703, revised title III of the Bankhead-Jones Farm Tenant Act and amended section 32(e) to read as follows:

"To cooperate with Federal, State, territorial, and other public agencies in developing plans for a program of land conservation and land utilization, to assist in carrying out such plans by means of loans to State and local public agencies designated by the State legislature or the Governor, to conduct surveys and investigations relating to conditions and factors affecting, and the methods of accomplishing most effectively the purposes of this title, and to disseminate information concerning these activities. * * *"

A policy memorandum, No. 1515 ,was issued by the Secretary on November 2, 1962. It states in part that "the Department will follow the practice of cooperating with and assisting local sponsors in developing and carrying out plans for resource conservation and development projects in meeting its responsibilities under the new authorization." This same memorandum to agency heads stressed the need to coordinate conservation programs of the Department of Agriculture under existing authorities as a means of bringing about improved economic benefits and agricultural stability within project areas. It also defines a "resource conservation and development project" as a locally initiated and sponsored project designed to carry out a program of land conservation and land utilization in an area where acceleration of the current conservation activities, plus the use of the new authorities, will provide additional economic opportunities to its people.

The merits of formulating and carrying out locally adapted plans of action within a specific project area are well established in the Department. Such an approach will further stimulate local participation in bringing about needed land use adjustments as envisioned by the act. These efforts will increase the extent to which private, county, municipal, and State funds are used to install needed improvements. Long-term loans may also be made to local and State organizations to help finance their part of the project costs.

This approach on a pilot basis is mainly to help local people in designated areas solve difficult land use adjustment problems and to develop their natural resources. It makes full use of local leadership, initiative, and participation in needed conservation activities. Such coordination is carried out by local, State, and Federal agencies toward the conservation, development, and improved uses of natural resources in the project area. The success of these pilot R.C. & D. projects will depend largely upon the active participation of all segments of the rural community, town, and country alike in using the programs of the Department to improve their own welfare.

A total of 10 proposed project areas have been designated in widely scattered parts of the country for necessary technical investigations and planning as-

sistance during the 1964 fiscal year. It is expected that coordinated local programs and work plans will be developed as a basis for project operations to start in the 1965 fiscal year. Although many applications for additional project areas are now pending, and other communities have expressed their interest, the budget estimate for 1965 provides for resource developments and loans in only the 10 pilot projects. A list and description of each proposed project has already been provided to the committee.

The Soil Conservation Service has been designated as the agency responsible for administration of those departmental activities relating to resource conservation and development projects. These responsibilities include—

(1) Project investigations and planning;

(2) Resource developments and technical services; and

(3) Related activities necessary for installation of planned developments.

Although the funds for loans are a part of the budget estimate for SCS, the placement and supervision of such loans will be administered by the Farmers Home Administration.

In addition, the Forest Service, Office of Information, Agricultural Stabilization and Conservation Service, Economic Research Service, Federal Extension Service, Office of Rural Areas Development, Farmer Cooperative Services, and Rural Electrification Administration will assist such projects in accordance with their regularly assigned functions. They will coordinate their working procedures for participation in project activities with the operating instructions of the Soil Conservation Service.

More specifically, the Soil Conservation Service is responsible for working closely with local sponsors in helping them with project activities, as follows:

(*a*) Obtain data on soil, water, plant and related resources from which problems and development potentials can be appraised.

(*b*) Develop and evaluate alternative opportunities for overcoming land use and other problems to improve resource potentials.

(*c*) Consider costs of various alternatives, expected benefits, and necessary financial arrangements and participation of local interests, State and Federal Government.

(*d*) Encourage participation of local groups, agencies, and others who have responsibility for roads, processing, marketing, and other activities necessary to proper utilization of the available resources within the project area.

(*e*) Contact and encourage other Federal, State, and local organizations to participate in this work in accordance with their authority controlling ordinances and regulations.

(*f*) Bring project proposals together into a coordinated plan for action which can be transmitted to the assigned State agency and to the Department for review and approval.

Such plans will be carried out project by project by the sponsoring local organizations and their cooperators over a period of years. When the work plan for each project has been approved by the Secretary, after consultation with congressional committees, including methods of local financing and Federal assistance, the Soil Conservation Service is expected to furnish the necessary installation services in accordance with amounts appropriated. This is expected to include designs, layout, and specifications, technical supervision, acceleration of land treatments where needed, and conversion in land uses on private lands to help meet the long-term project objectives.

Cropland Conversion Program

The cropland conversion program is a long-range land use adjustment program authorized by section 101 of the Food and Agriculture Act of 1962 as an amendment to section 16 of the Soil Conservation and Domestic Allotment Act.

It has as its primary objective the conversion of cropland regularly used in the production of row crops and small grains to some other use which will conserve and develop soil, water, forest, wildlife, and recreation resources. It is anticipated that these new uses will produce additional income for the farmers who make the conversion.

Farmers who participate in the program enter into agreements for periods of either 5 or 10 years depending upon the type of land being converted and the use for which the conversion is being made. However, agreements for converting cropland to forests or recreation facilities will be for periods of 10 years.

Participating farmers may receive adjustment payments, practice cost-sharing payments and technical assistance. The adjustment payments are not con-

sidered to be income payments but are designed to assist farmers to make the shift from crop production to alternate uses. They are based upon such factors as productivity of the land, the suitability of the land for continued crop production, and the use to which the land is being converted. Practice cost-share payments assist the farmer to carry out conserving practices in making the transition to grassland, forest trees, wildlife habitat or recreational facilities. The cost is shared only on those conservation practices which are agreed upon by the farmer and the Soil Conservation Service technician and which the ASC county committee determines are eligible under the program. In most cases conservation practices and rates of cost-sharing will be similar to those under the agricultural conservation program in each State and county.

The Agricultural Stabilization and Conservation Service including ASC State and county committees have responsibility for administration of the cropland conversion program.

RESPONSIBILITIES OF HOME MANAGEMENT SUPERVISORS

Mr. WHITTEN. Thank you. Again, on this matter that I raised, I wish you would go into some detail as to what the responsibilities were. You may have to do a little research. I think your recollection will provide just what the assigned duties of the home management supervisors were, how long they were in existence, how long Congress insisted on keeping them, and any other pertinent information.

Mr. BERTSCH. We will be pleased to do that.

(The information requested follows:)

We are pleased to present for the record the history and experience of the Farmers Home Administration and its predecessor agencies in using home management supervisors to assist low-income farm families in improving their living conditions. The technical guidance and counseling of these devoted workers was one of the great contributions the agency made, during the years that they were a part of our field staff, in helping farm families who were confronted with poverty.

Beginning with the rural rehabilitation program in 1935 and continuing through the Resettlement Administration, the Farm Security Administration and the early years of the Farmers Home Administration, home management supervisors were employed to work with farm families who were using the various credit services of the agency.

The number employed during the middle and late 1930's was small but through our recruiting and training programs the number of home management supervisors increased to approximately 2,700 by 1942. During the 1942 fiscal year they were working with 875,000 farm families or an average of about 300 families each.

The number of home management supervisors employed remained rather constant during the war years but declined somewhat during the postwar years as the income position of farm families improved and as the number of families assisted by the Farmers Home Administration declined.

The following table shows the number of home management employees from 1947 until their work as a part of the agency's field staff was phased out.

As of June 30—	*Number of home management supervisors*
1947	1,176
1948	1,030
1949	110
1950	74
1951	30
1952	5
1953	0

SPECIFIC QUALIFICATIONS AND DUTIES OF HOME MANAGEMENT SUPERVISORS

Home management supervisors were technically trained in home economics and had to exercise much initiative, imagination, and leadership in dealing with the difficult problems of low-income farm families. They worked with

families individually in their homes and with groups of families. The major duties were as follows:

1. Assisting the family in developing home plans providing for the production, conservation and storage of adequate food supplies, giving special attention to—

(*a*) The quantity of garden production sufficient to supply the family's needs for the year.

(*b*) Variety of garden production.

(*c*) Sufficient equipment and practices essential to a satisfactory garden (location, fertilization, insecticides, seeds, etc.).

(*d*) Assist family to develop annual food budget to provide an adequate supply of milk, meat, and eggs for the family.

(*e*) Necessary facilities for storage of food.

2. Teaching families how to plan for, make and repair essential clothing.

3. Develop and provide borrower families with timely informational material on home management. This was done by the use of simple charts, instruction by letter and through other educational devices.

4. Teaching families to budget income and expenses and keep and use farm family records.

5. Teach families how to recognize health problems and the use of available public and private services.

6. Give guidance and counseling to families as needed on the following services:

(*a*) Vocational rehabilitation.

(*b*) Advantages of immunization, preschool medical clinics and other medical facilities and services.

(*c*) The advantages of the family participating in sanitation programs sponsored by the U.S. Public Health Service.

7. Give the family guidance on methods, ways, and means of planning and budgeting necessary family living expenditures within the income potential of the family.

8. Teach families how to provide reasonably satisfactory housing for comfort, safety and convenience and for storage.

(*a*) Through remodeling or repairing existing buildings.

(*b*) Through providing new housing when necessary.

ACCOMPLISHMENTS

The accomplishments of these devoted workers is something we are proud to talk about. I should like to comment on only a few. Probably the most significant contribution was in the nutrition and health of the families resulting from more and improved varieties of food, better clothing and improved housing and sanitation conditions in the home. Studies made of progress of families assisted by the home management supervisor reveal the following:

1. The value of home-produced food increased by 101 percent.

2. The quantity of fruits and vegetables canned per family increased by more than 200 percent.

3. The quantity of meat and milk produced for family use doubled.

4. The families learned to make and repair much of their own clothing thus resulting in family living costs being reduced.

5. Improved health practices and home safety resulted in better living conditions.

6. There was substantially increased participation in community activities by both the youth and adult members of the families.

7. School attendance by children of families being assisted increased.

I should like to add also that after a few years of assistance from both the home management and county farm management supervisors together with the credit extended, the families were able to repay their FHA loans in full, obtain needed credit from private and cooperative sources and take their rightful place in community and county activities.

WHAT IS THE PRESENT IMPORTANCE OF HOME MANAGEMENT ASSISTANCE AND ITS RELATIONSHIP TO ALLEVIATING POVERTY?

The problems confronting low-income farm families today are similar in many ways to those faced by such families a number of years ago and are much more

accentuated in other respects. Many thousands of farm families in the poverty category need intensive individual help on such matter as:

(*a*) Counseling with the younger members of the family on education and careers.

(*b*) Guidance for occupational training.

(*c*) Continued help on problems affecting the management of the home such as planning for food, clothing, and health needs, providing a better subsistence program and making wise use of income.

(*d*) Guidance in financial management. The problem of financial management among low-income families has grown with the modern equipment and facilities now on the market, increased sales emphasis and the desire of families for an improved level of living.

Home management supervisors could make a significant contribution in giving individual guidance to these low-income farm families in dealing with the above problems. Such assistance would be especially useful in areas of the country where a concentrated effort is being made to deal with the poverty problems of low income rural people.

The record of appropriation hearings over a period of years reveals that the Congress has supported this important service to low-income farm families. In fact, the record of hearings for the fiscal years 1954–58 shows that members of this committee have been insistent upon the agency reinstating home management supervisors.

Mr. WHITTEN. I presume that you would have to have some relief from the present manpower ceiling if this new assignment were given to you. However, in looking at your own operations, just like the others that we have had, I notice that you have 16 man-years set aside for State rural rehabilitation corporations. There is $160,000 budgeted here for that. Also, for assistance to the ARA program, Department of Commerce, you show 34 man-years. The Agency for International Development shows 12 man-years.

I wish you would describe what you do, and what is involved.

RURAL REHABILITATION CORPORATIONS

Mr. BERTSCH. With respect to the work we do for State rural rehabilitation corporations, Mr. Chairman, you will recall that about 1949 legislation was enacted which initiated the beginning of thel iquidation of State rural rehabilitation corporations which had been entities through which the Farm Security Administration, or the Resettlement Administration at one time was operated. These corporations had funds and we were the trustee for the administration of those State corporation's funds.

This legislation gave the State corporation, which is a State body, its affairs directed by a board of directors of lay leaders in the State. It gave them the option of either having this trust agreement canceled and the funds returned to them for their use, or of entering into an agreement with the Farmers Home Administration for its continued administration of those funds. When we enter into such agreement with the directors of the corporation we levy a charge, as it were, against the assets of the corporation to defray in part at least the expenditure, the cost of administering their resources.

The resources that we are administering for State corporations amount to about $25 million, and we judge for budgetary purposes that 16 of our employees are paid from the funds levied against these corporations for such administrative purposes.

Mr. WHITTEN. May we have for the record the number and size of the corporations and their locations?

Mr. BERTSCH. Yes; we would be glad to provide that.
(The information requested follows:)

State rural rehabilitation corporations—Assets administered by the Farmers Home Administration

	Net assets, June 30, 1963		Net assets, June 30, 1963
Alabama	$1,008,225.16	Nevada	15,721.30
Arizona	4,119.48	New Hampshire	4,985.68
Arkansas	15,485.78	New Jersey	43,292.26
California	115,261.78	New Mexico	813,237.77
Colorado	126,566.75	New York	76,244.19
Florida	614,002.51	North Carolina	3,596.93
Georgia	4,092.15	North Dakota	219,478.37
Idaho	234,435.64	Ohio	1,071,303.56
Illinois	636,679.45	Oklahoma	1,600,023.22
Indiana	322,899.30	Pennsylvania	123,236.79
Iowa	1,488,690.68	South Carolina	2,158.42
Kansas	1,060,582.57	South Dakota	3,146,053.64
Kentucky	535,510.79	Texas	2,579,487.88
Louisiana	107,936.81	Utah	626,139.39
Maine	315,996.81	Virginia	997,302.69
Michigan	46,175.04	Washington	19,976.48
Minnesota	4,171,048.83	West Virginia	290,845.94
Mississippi	794,339.47	Wisconsin	33,875.43
Missouri	54,904.50		
Montana	227,962.99	Total	25,882,325.12
Nebraska	2,330,448.69		

ARA PROGRAM

Mr. WHITTEN. Turning to ARA, what do you do for that money?

Mr. BERTSCH. The Area Redevelopment Administration transfers through the Department of Agriculture to the Farmers Home Administration in excess of $300,000 a year. We are estimating $360,200 in 1965.

Mr. WHITTEN. Do you approve of projects for the ARA that are in the agricultural area?

Mr. BERTSCH. We make studies of proposals which they refer to us for loans in agricultural areas.

Mr. WHITTEN. Earlier I pointed out that, while the Senate was wrestling over this cotton measure, trying to bring some relief to the cotton industry, primarily because of the competition of synthetic fibers, an announcement was made of a $3 million loan by the ARA in South Carolina to set up a mill to use synthetic fibers.

Did that come to you?

Mr. BERTSCH. That would not come to us. That is an industrial loan and it would have been referred, I suspect, to the Small Business Administration for consultation.

Agricultural loans for agricultural processing plants and such are referred to us for our counsel and advice. We do give to the ARA the benefit of our judgment on such.

AID PROGRAM

Mr. WHITTEN. The Agency for International Development—what do you do in that area?

Mr. BERTSCH. The Agency for International Development is supposed to transfer about $140,000 a year of funds to us. We support

their participant training program in this country. They bring a good many people from other lands to this country to observe the way American institutions are operated and where they are observing the way American credit institutions are operated; we take them under our wing for a period of weeks or months, 2 or 3 months in some instances, giving them an opportunity to have an intensive experience in our county offices.

Mr. WHITTEN. Mr. Horan?

Mr. HORAN. How far are we going with this? Are we nearing the end of the Farmers Home Administration?

Mr. WHITTEN. We would hope we could get through. But then I don't want to deprive my friend from having as much time as he wants, or Mr. Michel either.

Mr. HORAN. I don't have too much, but I want to say—along with my chairman here—that we watched the transition of the Farm Security Administration. I think we can say the FSA probably died a natural death because it was too irresponsible, fiscally, to be of any moral use to rural America, and it was superseded as you may know by a complete reorganization, I think, in 1946.

Mr. GRANT. The Farmers Home Administration Act was passed in 1946.

Mr. HORAN. By the Farmers Home Administration. It had as one of its early Administrators, and a very good one, Mr. Dillard Lassiter. During the 1950's we had one of your predecessors, Kermit Hanson, who did a good job, and I think you are doing a very good job.

I have viewed with a little concern the burgeoning out of your shop to do most everything in the credit line, not that you are not qualified. I know that under the Farmers Home Administration we made good citizens—and I have said this before—out of rural people who might have become gripers for the rest of their lives and as such, very poor citizens.

Some reference was made when Mr. Williams was before us with the Soil Conservation Service, and we discussed this resource conservation and development, where they have 10 pilot projects. I notice you have only five.

FLORIDA RURAL RENEWAL PILOT PROJECT

Reference was made to Washington County, Fla.

What is proposed down there?

Mr. BERTSCH. This rural renewal area, Congressman Horan, is a three-county area, made up of Washington, Holmes, and Walton Counties. These are three counties in the northwest portion of Florida, not characteristic at all of what we ordinarily think of as Florida.

They are rural counties. They are counties with very low median incomes for all people. Washington County, for example, has a median per family income for all its population of $2,600 a year.

It is rural. It has only 1 town above 2,500—Chipley.

Mr. WHITTEN. You said $2,600?

Mr. BERTSCH. $2,600 a year is the median income for all the population of Washington County, Fla.

These Florida counties are three very hard-pressed counties.

Mr. HIGBEE. Is this per capita or per family?

Mr. BERTSCH. This is per family income—$2,600 per family income. If I said "per capita," I misstated it.

The rural families have a median income of $2,400. This is characteristic of these three counties. They have a very active local organization, local development organization, authorized, designated by the Governor, authorized under the laws of the State——

Mr. HORAN. It is not a corporation?

Mr. BERTSCH. No. It is called the Washington County Development Authority, and each of these three counties has one. E. W. Carswell is the chairman of the council in Washington County. He is a very distinguished and active community leader, a very responsible one. It was through his efforts and the efforts of the other two counties' development authority chairmen that this petition was submitted to us.

Our preliminary investigation revealed that there was a serious economic situation in that area; because there appeared to be the kind of local leadership that would use this opportunity wisely and constructively, we recommended to the Secretary that he designate these three counties as one of our pilot areas.

What they will do—it is a bit premature to indicate specifically what kind of projects they will undertake. They are now in the planning stages. They are now in the stages of surveying their resources, both physical and human resources. They are now evaluating opportunities for adjustments and restructuring of their resources in the county, and they will come to us within a reasonable short time, we trust, with specific proposals for development for which local support is unquestioned and which is within the statutory authorizations which we believe will be helpful to them.

Mr. HORAN. What part will the Congress play in this as it develops?

Mr. BERTSCH. In the event that any project should require a loan in excess of $250,000, then that project will be brought before the appropriation—must be brought before the appropriate committees of Congress for review before the loan is made.

So that I assume that by appropriate committees, these would be the Agricultural Committee of the House and Senate, and perhaps the Appropriations subcommittees.

Mr. HORAN. What is your understanding, Mr. Secretary?

Mr. MURPHY. I am not informed on this particular subject.

Mr. POLK. The Committees on Agriculture of the House of Representatives, and the Agriculture and Forestry Committee of the Senate.

Mr. HORAN. Then it would not come before this subcommittee?

Mr. BERTSCH. Apparently not.

Mr. POLK. Not according to this section.

Mr. BERTSCH. I recall the early language saying the appropriate committees of the House and Senate.

Mr. HORAN. One of the things that always struck me about the Farmers Home Administration, as now constituted, and with the historic background that it has had through many years of good administration, is that it has not been in the habit of making loans if there weren't good reasons for it. And, of course, your repayment record would indicate that.

Mr. BERTSCH. It shall certainly be our intent to continue that approach and that record.

In connection with rural activities, you can be sure that our approach will be a prudent one; it will be a responsible one, so far as we know what responsible means.

Mr. HORAN. I have seen some work done in this field. It has been done ever since 1954 under rural redevelopment, or whatever you wish to call it.

As my colleague, Mr. Natcher of Kentucky well knows, it occurred in Butler County, in his district, and it was almost a resurrection merely because they were able to organize and get together and they presented a united front.

Industries moved in because it was a stable community, with labor available, and they have really had a resurrection.

My counties under the program are too far from available markets to have anything as flowing as that. The programs have not hurt them at all and have done some good.

There is no use, as we have said so many times, to use the Farmers Home Administration merely to make loans to a farmer who is delinquent or low on the credit rating totem pole, so that he can go broke all the faster. We have to take care of his ability to repay. That accounts for the rise in farm ownership plans as we refinance him and enable him to get an economic unit to operate on.

ECONOMIC UNIT STUDY

Do you use the findings that are coming out of Mr. Koffsky's shop at all on what constitutes an economic unit? Have you read it, Mr. Secretary?

Mr. MURPHY. No.

Mr. HORAN. I had the Farmers Home Administration in mind when we compiled this. Have you seen this at all?

Mr. MURPHY. I don't believe I am familiar with it, Mr. Horan.

Mr. HORAN. This has been going on for quite a while. Mostly at my instance. This will be out as a completed document, I understand, this year sometime. It will give you about 35 instances around the United States of various types of farming, of the investment capital, acres, and the livestock or other equipment, or what have you; if it is in orchard trees, the number of trees required to bring the net income in of $2,500, $3,500, $4,500, and $5,500.

It is astounding that we are able to keep some of these gentlemen on the farm, excepting that I guess they probably can't sell out for what they are supposed to have in investment capital.

Beef production in south-central Oklahoma, to have a net income of $5,500, these findings indicated an investment in capital of $353,000 plus. For an apple orchard in my area to have a net income of $5,500, you would have to have an investment of over $119,000. That is what Mr. Bertsch has to deal with.

I think if these err at all, they are on the safe side. These are probably a little higher than these investments—levels are all a little higher than is absolutely necessary, although I assume they are weighted. However, they do give you some benchmarks, and that is what we have been doing through the years in the Farmers Home Administration, in my book, is that we have been taking a look at the prospective borrower, at his credit rating, and if we find that he is eligible and is not referred to another agency or another credit source, we have made a

long study of what needs to be done in certain instances. And it probably has its effect upon some of our charts. That is the reason I wanted to know the number of borrowers, number of loans involved, in some of this.

I notice here this is worth reading.

Mr. MURPHY. I would be very much interested in that.

Mr. HORAN. This started in 1956. It came out in 1957. This was reprinted in February 1962. Dr. Nathan Koffsky can tell you all about it, or any member of the subcommittee, because they get tired of hearing me talk about it.

It is involved in any study of what constitutes success in farming. I have even discussed it with Mr. Highfill over the phone. He knows what I am talking about. And I think Mr. Floyd Higbee, too.

TYPES OF OPERATORS SERVED

You say here:

The farmers that turn to us today for operating credit, plus farm and financial management, fall in four groups:

(*a*) Operators of adequate family farms who are in financial difficulty and need help in restructuring their debts and making basic adjustments in their farming operations.

You have no trouble with them unless it is a character relapse.

(*b*) Operators of inadequate family farms who need assistance in obtaining the resources required for an adequate income.

That is what we have been discussing.

(*c*) Operators of part-time farms who need assistance in bolstering the farm side of their income production activities.

That requires some thinking.

Mr. BERTSCH. We, I think, all of us recognize that part-time farming is with us to stay.

Mr. HORAN. Yes.

Mr. BERTSCH. The part-time farmer with whom we work is one whose off-farm source of income is relatively secure and relatively stable. There is nothing that we can do about influencing his nonfarm source of income.

But there are things that we can do and are doing with a substantial number of these people to help build the farm portion of their total income. So long as his nonfarm income is stable and is reliable and available to him, we find that we have relatively low delinquency among those borrowers.

Mr. HORAN. We have had a dramatic change in that over the years.

Mr. BERTSCH. That's right.

Mr. HORAN. I recall some 8 or 10 years ago, a grange in my district, and being told by one of the older members of that grange that 20 years before then, 90 percent of that grange—and it hadn't changed personnel too much—had gotten all their income off of their fruit branches or their diversified branches, and that today—this was 10 years later—it was probably not over 10 percent were doing that. The others had jobs in town with the aluminum company or what have

you. So it has changed and it is a fact that Farmers Home Administration has to recognize.

(*d*) Operators of small farms who, because of age, education, and other limitations and they cannot expect to obtain all the resources they need but who can, with technical assistance and modest amounts of operating credit, improve income and food production sufficiently to make their hardships more endurable.

I assume that the amount of credit in a case like that would be very modest.

Mr. BERTSCH. It is a modest-size loan that borrowers in this category receive. There are many of them. I mean, there are many people in this category.

As I have indicated there, the people who are, let us say, past 45 or 50 years old, who have a rural culture, a rural tradition, they do not have the education or the health or the youthful vigor that is demanded in the management of one of these $75,000 or $100,000 capitalized farming ventures and they won't have it.

The idea of retraining them for employment elsewhere is not realistic because they have passed the age or lack the education necessary to be retrained for industrial employment.

We will never likely make fully successful commercial farm operators out of these people. But we can help them live a little better where they are, repay their debts.

The only alternative to that is a worse alternative somewhere else, living in city slums, on urban welfare rolls with a complete loss of personal dignity, separated from their family and their friends and their culture.

We continue to render, I believe, a very, very useful service in stabilizing these people in rural areas, as the chairman indicated in his earlier comments.

Mr. HORAN. I want to thank you, Mr. Bertsch, for this interesting discussion. My reason for doing this is, I believe one of the great services that a man in an administrative position such as yours can do is by broadening the shoulders and raising the head of his fellow man through facilities that he is temporarily placed in charge. It has been done; it is being done. I think one of the dark times in our history of agriculture is the days of the nonrecourse loan. Some of the things we did in the late 1930's under the Farm Security Administration, at which time we were practically told people didn't have to repay this, this is Government money, that sort of thing is not what has given the Farmers Home Administration its present record. I hope that you don't wreck this beautiful ship or raft—maybe it is a raft—on some of these ideas that stick out like a rock out of the storm at times. Especially I hope that some limit, Mr. Chairman, of soundness is applied to anything they do along the lines of this program.

Mr. WHITTEN. Mr. Michel?

PERCENT OF FARM LOANS BY FHA

Mr. MICHEL. Mr. Bertsch, what percentage of the total farm loans in the country are made through the Farmers Home Administration?

Mr. BERTSCH. About 6.6 percent of them.

I regret now, Congressman, that I didn't bring my other chart. We charted this factor for a number of years to show that while

we had expanded our operations, we had not expanded that portion of the credit business that we perform.

Fortunately, somebody brought a copy. We didn't make a big chart of it. In 1961 we did 6.1 percent; 1962 6.7; 1963, 6.63. Banks do about 71 and 72 percent each year. PCA, 21 percent.

Mr. HORAN. You are going to also put some notation in there of the number of people who have graduated from Farmers Home Administration?

Mr. BERTSCH. Yes.

INTEREST RATES

Mr. MICHEL. Have we had put into the record what interest rate would apply?

Mr. BERTSCH. Our operating loans are at 5 percent interest. This is the statutory maximum. Our farm ownership loans also draw that maximum of 5 percent.

Mr. MICHEL. How do these rates compare with private lending institutions today?

Mr. BERTSCH. I suspect that generally they are between three-fourths of a percent and 1 percent lower.

Mr. MICHEL. Lower?

Mr. BERTSCH. Yes.

Mr. HIGBEE. I would suspect about one-half of 1 percent lower.

PURPOSES OF OPERATING LOANS

Mr. MICHEL. Is there any indication of what the greatest amount for operating loans goes for?

Mr. BERTSCH. Yes; we have that information.

Mr. MICHEL. Could you supply it for the record?

Mr. HIGHFILL. About 24 percent for livestock.

Mr. BERTSCH. We will be glad to provide a complete breakdown of the various purposes.

(The information requested follows:)

Purposes for which operating loan funds were used—fiscal years 1961–63

	Percent of amount loaned for each purpose		
	1961	1962	1963
Purchase of livestock	23.4	24.6	25.2
Purchase of machinery and equipment	13.8	13.6	14.9
Refinancing of chattel debts	30.0	32.4	30.7
Real estate improvements	1.2	1.1	0.9
Farm operating expense	27.3	22.9	22.4
Family living expense	3.7	3.1	2.8
Paying current and old operating bills	0.6	2.3	3.1

Mr. MICHEL. Of these data which you will be supplying, have there been any significant shifts within the past year?

Mr. BERTSCH. Perhaps not in that short a period of time although we have been putting emphasis in our training process with our personnel on the importance of using these resources for productive purposes. We have tried to minimize the amount of each loan dollar that goes for refinancing and other indebtedness unless this was essential to their continued farming operation. We don't want to take other lenders out of the financing picture.

We have reduced by this effort the percentage of our loan funds that go for refinancing. We have emphasized continuously, and I think it is bearing some fruit, the importance of using borrowed money for productive uses, productive purposes.

WAR ON POVERTY

Mr. MICHEL. In this allout war on poverty, what do you envisage is going to be your biggest area of participation?

Mr. BERTSCH. Of course, it is perhaps premature for us to speculate about it. The President's message went up yesterday. I read it with a great deal of interest. The authorities, as I understand the legislation, will run to an Office of Economic Opportunity on the President's staff, or established in his Office. The Director of that Office will determine what functions he will delegate to various agencies of the Government, and I am assuming that as he delegates the functions, he will transfer the resources to carry out those functions.

I would, in line with what the chairman of the committee suggested earlier this afternoon, I would, for the Farmers Home Administration, welcome any opportunity that was given us to apply in this situation the lessons we have learned over the years. I trust that that will take place.

I trust that if credit programs for rural people are part of this ultimate war on poverty, they will be delegated to us.

Mr. MICHEL. Has there been any talk that as a consequence the interest rate would be lower than what you have as a general rule of thumb now?

Mr. BERTSCH. Not to my knowledge. I think there is a formula in the legislation, or in the draft of the legislation that I saw, which would provide that the interest rates on all loans, not only agricultural loans but loans administered by Small Business Administration or by any other credit agency of Government under this poverty program, interest rates would be established by the Secretary of the Treasury, considering two or three factors: One would be the comparable rates paid by Government for borrowings for comparable maturities. And they would include an allowance to defray, at least partially, an allowance for losses and the costs for servicing. The legislation which I have seen does not fix a fixed rate of interest. It gives a formula——

Mr. MICHEL. Did the administration ask anybody in your shop to participate in the drafting of any appropriate section of that legislation?

Mr. BERTSCH. We have done staff work, yes. People on my staff have done staff work for the—the last 6 weeks or so in support of specific requests made by Mr. Shriver and his colleagues.

Mr. MICHEL. Has there been any indication of what areas specifically your shop might be involved in? Would there be an emphasis on housing for the elderly? What are some specifics that were talked about?

Mr. BERTSCH. I think nothing we worked on for Mr. Shriver has been in the housing field. I am a bit ill equipped to discuss this in detail. I think the staff work we have done has been largely in the area of outlining proposals or suggestions for credit programs for extremely low income people.

HOUSING LOANS FOR ELDERLY

Mr. MICHEL. Currently, there are loans being made in your shop for housing for the elderly in rural areas, are there not?

Mr. BERTSCH. Yes. We make loans authorized by the Senior Citizens Housing Act of 1952 of three categories. We make direct loans to individuals, 62 years of age or over, who are able to and wish to maintain their own individual home. Second, we insure loans to profit-motivated associations or individuals or corporations for the construction of rental housing for senior citizens. Those are not direct loans, but insured loans. And the interest rate on those loans is competitive to what the Federal Housing Administration insures loans for. Third, we make from a revolving fund direct loans to nonprofit associations of farmers and rural residents for the construction of rental housing for low and moderate income senior citizens, and these loans bear rather favorable interest rates.

I think, at the present time, the interest rate on these loans is 3⅝ percent. This, by statute, parallels the interest rate charge for public housing in certain low-cost public housing programs.

RELATIONSHIP WITH FNMA

Mr. MICHEL. In this insurance field, do you folks work at all with FNMA?

Mr. BERTSCH. We do not at the present time.

Mr. MICHEL. Is it contemplated that you will?

Mr. BERTSCH. The Administration's bill before the Congress at this time for an insured rural housing program would authorize the FNMA people to provide their same secondary market facilities for our insured loans that they do now for the Federal Housing Administration.

Mr. MICHEL. Do you think that is a good suggestion?

Mr. BERTSCH. Yes.

Mr. MICHEL. You would have no objections to it, then?

Mr. BERTSCH. No. We recognize that some sort of secondary market is necessary to make this paper attractive to private investors. This seems to be an adequate one.

Mr. MICHEL. Do you make loans to associations that purportedly provide housing for the elderly?

Mr. BERTSCH. Yes, we do. Associations of two types: the profit-motivated association and non-profit-motivated associations.

Mr. MICHEL. Are there any restrictions as to whether or not these definitely must be for elderly citizens?

Mr. BERTSCH. There are restrictions in the loan agreement that require that the housing be made available for the elderly people.

Mr. MICHEL. Is it mandatory that they be of a certain age before entrance?

Mr. BERTSCH. Mr. Campbell, could you answer that?

Mr. CAMPBELL. The statute is not too specific, but the Administration's regulations require that at least one of the family—and the family there is defined as those who are dependent on each other—be of the maximum statutory age of 62 years.

Mr. MICHEL. Minimum or maximum?

Mr. CAMPBELL. The minimum age. The husband might be 62; his wife, less than 62. The family would be eligible.

FARM OWNERSHIP LOANS

Mr. MICHEL. In the 1965 budget, is there $10 million for farm ownership loans?

Mr. BERTSCH. That is correct; $10 million for direct farm ownership loans to be made from the direct loan account.

Mr. MICHEL. How does that compare with 1964?

Mr. BERTSCH. That is $35 million less than 1964. It was $45 million in 1964.

We also insure farm ownership loans and we anticipate in 1965 that the bulk of our farm ownership loan program will be on an insured basis.

Mr. MICHEL. Are you counting on that really taking up the slack or the difference?

Mr. BERTSCH. Yes, sir.

Mr. MICHEL. Are you satisfied that this can accomplish the desired result?

Mr. BERTSCH. We have an insurance authority which was increased last year by the Congress to $200 million annually from $150 million, and on that basis, we, as I committed myself to this committee last year, we will not use direct loan funds as long as insured funds and insurance authority is available. We saved $7 million of the direct loan money that you made available to us for 1963. That is, we did not loan it. On the basis of that, I presume that the need in 1965 will be met by the $10 million.

Mr. MICHEL. I don't think I have any more, Mr. Chairman. The bulk of my questions have to do with folks in the rural areas.

RURAL HOUSING LOAN REGULATIONS

Mr. WHITTEN. There is another question I meant to ask you. I have in my area, and it is typical, an individual who has an undivided interest in the family estate for various reasons. It is not practical, maybe not possible now, to divide that estate. He has applied for a housing loan and tried to make available a reasonable amount of land, 5 or 6 acres. The FHA has insisted that they have to have a mortgage on his undivided interest in the estate of his deceased parents.

In the same neighborhood several who have 5 or 6 acres were able to borrow money. It strikes me that the most security possible would be in line. I understand from you that that is what your general rules require. A man has to involve his entire holdings for a housing loan even if this means fouling up his other business.

By the same token, the man who only owns a small tract may be undermortgaged, where you ought to have a second mortgage. It seems to me that you ought to have a more uniform policy if people are to be treated alike in rural housing.

Have you given any consideration to some standard rules to meet a case such as I have described? It strikes me that you need to, to be fair.

You shouldn't make any loan unless it is sound. That involves two or three things—the borrower's earning capacity, his income, the fact that he can't obtain the loan elsewhere. In the case I mentioned this would mean that his equity in the estate, or the involvement, would be such that he wouldn't have credit at the bank. If he is in that situation one more mortgage against everything he has seems to me to be out of line.

According to your rule, one man who lives on one side of the road is able to borrow and put up the 6 acres of land that he owns. This man has no earning capacity or income. The man across the road can't do the same thing; he must put up everything he ever hopes to get from any source.

Mr. BERTSCH. This is a complex problem where we are making housing loans to both farmers and housing loans to the owners of nonfarm rural tracts. The housing legislation provides that the loan will be secured by a mortgage on the real estate so improved.

We recognize that in some instances it may appear to be an inequity when we resist letting the farmowner carve out a homesite from his farm and pledge to us the security represented by the homesite and keep the rest of his farm unencumbered, whereas across the road, as you have suggested, a man who owns nothing but a homesite might receive favorable consideration.

Mr. WHITTEN. The fallacy in encumbering the entire farm, as I see it, is that if the farm is that valuable the borrower would fail in the first qualification. He would be able to borrow money elsewhere.

Mr. BERTSCH. If he did fail in the first qualification we wouldn't be engaged with him. We first have to establish that he can't get credit elsewhere. If he can't get credit elsewhere, we feel that we are obligated under the statute to take the best security that is available on the property to be improved.

Mr. WHITTEN. I wish to thank you again, Mr. Bertsch. I do think that perhaps with time, as Mr. Horan pointed out, this has become one of the bigger and more successful activities of the Department of Agriculture. This matter of providing credit to people who cannot obtain it elsewhere is an essential function. Not only is it of great help to the people involved but to the economic health of the country and, may I say, one of the great things that will help in avoiding poverty.

I hope you will review, more in detail, the suggestion I made earlier about the soundness of having home-management supervisors. It strikes me that this is the best approach we could possibly put forth in any effort to reach those in rural areas that might be qualified to receive attention under the so-called poverty program.

Mr. BERTSCH. I am in complete accord.

Mr. WHITTEN. Thank you again.

THURSDAY, MARCH 19, 1964.

OFFICE OF RURAL AREAS DEVELOPMENT

WITNESSES

CHARLES S. MURPHY, UNDER SECRETARY OF AGRICULTURE
A. T. MACE, DIRECTOR, OFFICE OF RURAL AREAS DEVELOPMENT
C. B. GILLILAND, DEPUTY DIRECTOR, OFFICE OF RURAL AREAS DEVELOPMENT
JOHN A. SMALLWOOD, ACTING DEPUTY DIRECTOR, ADMINISTRATION, OFFICE OF RURAL AREAS DEVELOPMENT
MORRIS KAUFMAN, SECTION HEAD, BUDGET BRANCH, DIVISION OF BUDGET AND FINANCE, OFFICE OF MANAGEMENT SERVICE
CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Dr. Mace, we are glad to have you with us from the Office of Rural Areas Development, as well as your associates. We have virtually completed the hearings of the Department. We have tried to touch on this activity as we have had the FHA and other agencies of the Department before us. However, we haven't gone into it from the standpoint of the overall. In connection with your appearance we will ask that pages 1 through 5 of the justifications be included in the record at this point.

(The material referred to follows:)

OFFICE OF RURAL AREAS DEVELOPMENT

PURPOSE STATEMENT

Rural areas development program activities are carried out by the Office of Rural Areas Development which was established by the Secretary of Agriculture's memorandum 1448 of June 16, 1961. The responsibilities of the Office are to (1) provide leadership and initiative in the formulation of plans for carrying out rural development programs of the Department of Agriculture; (2) coordinate and expedite the application of resources of Department agencies in assisting State, local, private, community, and farm organizations and individuals working for the improvement of economic conditions in rural areas; (3) maintain liaison with appropriate Departments and agencies of the executive branch and with officials of public and private organizations to assure coordinated effort in utilization of available resources in support of the rural areas development program. The Office also coordinates work conducted by USDA agencies under the Area Redevelopment Act and the accelerated public works program. It also advises State and local governments in establishing projects under these programs.

Available funds and man-years, 1963 and estimated 1964 and 1965

Item	Actual 1963		Estimated available 1964		Budget estimate 1965	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Office of Rural Areas Development: Salaries and expenses	$84,690	3	$120,000	8	$124,000	8
Other funds:						
For carrying out work under Area Redevelopment Act. (Department of Commerce)	303,911	20	362,000	26	366,000	26
Acceleration of Public Works (Department of Commerce)	4,565	1	9,200	(1)	9,200	(1)
Total, other funds	308,476	21	371,200	26	375,200	26
Total, Office of Rural Areas Development	393,166	24	491,200	34	499,200	34

[1] 0.5 or less.

Salaries and Expenses

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	32	94	98
	Other personnel compensation	11	1	1
	Total personnel compensation	43	95	99
12	Personnel benefits	3	7	7
21	Travel and transportation of persons	12	9	9
23	Rent, communications, and utilities		4	4
24	Printing and reproduction	3	3	3
25	Other services	2		
26	Supplies and materials	2	1	1
31	Equipment	20	1	1
	Total obligations	85	120	124

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	6	8	8
Average number of all employees	3	8	8
Employees in permanent positions, end of year	6	8	8
Employees in other positions, end of year	0	0	0
Average GS grade	11.2	10.8	10.8
Average GS salary	$10,627	$11,010	$11,047

Salaries and expenses

Appropriation act, 1964, and base for 1965	$120,000
Budget estimate, 1965	124,000
Increase	+4,000

SUMMARY OF INCREASES, 1965

For increased pay act costs (Public Law 87–793)	+3,000
For net increased costs of within-grade salary advancements	+1,000
Total increase	+4,000

Project statement

Project	1963	1964 (estimated)	Increases		1965 (estimated)
			Increased pay costs (Public Law 87–793)	Other	
1. Program coordination and direction	$84,690	$120,000	+$3,000	+$1,000	$124,000
Total increased pay act costs (Public Law 87–793)		(+2,000)	(3,000)		(5,000)
Total available or estimate	84,690	120,000	+3,000(1)	+1,000(2)	124,000

INCREASES

(1) An increase of $3,000 to provide for the additional costs in fiscal year 1965 of the second step of the pay increase pursuant to Public Law 87–793. (An overall explanation of increases for pay act costs is included in the preface to these explanatory notes in vol. 1.)

(2) An increase of $1,000 for net increased costs of within-grade salary advancements. The Office of Rural Areas Development is a small agency with a low rate of personnel turnover. Because of the low turnover and the necessity for filling vacancies as they occur, the increase of $1,000 is required for mandatory within-grade salary advancements which cannot otherwise be met.

STATUS OF PROGRAM

The Office of Rural Areas Development is responsible for general staff coordination of the rural areas development program to assure that all Department agencies provide effective assistance to local people in attaining the permanent economic improvement of rural areas. To insure that maximum benefits are realized, the resources of Federal, State, and local government agencies, nongovernmental agencies, institutions, organizations, and individuals are utilized.

Rural areas development activities of the Department include programs of credit, technical assistance, and cost-sharing to individual families, both farm and nonfarm, businesses, cooperatives, and local and State government units and their instrumentalities for planning and carrying out activities to promote stimulation of business and community enterprises and natural resource development and conservation. These activities are directed toward establishing a firm foundation for the rural economy which will provide permanent prosperity with a desirable rate of economic growth throughout rural America. The Office of Rural Areas Development stimulates interest in the development of commercial and industrial enterprises to relieve widespread unemployment and underemployment and assists in development and implementation of plans and programs designed to solve local problems.

Under the general direction and supervision of the Assistant Secretary for Rural Development and Conservation, the Office of Rural Areas Development is responsible for the following specific functions:

1. Provide leadership and initiative in formulating current and long-range rural areas development policies and plans for the Department.
2. Expedite and coordinate Department assistance to State and local organizations.
3. Enlist the resources and services of State and local governments, associations, institutions, and individuals in the rural areas development program.
4. Maintain continuous review and analysis of rural areas development accomplishments and economic improvements.
5. Coordinate rural areas development work of the agencies of the Department of Agriculture with the related and supporting work of other departments of the executive branch of the Government.
6. Maintain liaison and coordinate USDA programs with those of other Federal agencies, including, but not limited to—
   (*a*) Farm and migratory labor programs of the Department of Labor;
   (*b*) Assistance to the aged and handicapped through the Department of Health, Education, and Welfare;
   (*c*) Manpower development and training programs under the aegis of both the above Departments;
   (*d*) The area redevelopment program of the Area Redevelopment Administration; and
   (*e*) The accelerated public works program coordinated by the Area Redevelopment Administration.
7. Provide departmental leadership and initiative in strengthening the position of the family farm.
8. Provide leadership and initiative in the Department's program to promote outdoor recreation in rural areas.
9. Provide leadership and initiate policies which will assure specially disadvantaged groups full opportunity to participate in the programs of the various agencies.

Area redevelopment activities.—The Office of Rural Areas Development coordinates Department of Agriculture efforts in connection with the Area Redevelopment Administration program in areas designated for assistance under section 5(b) of the Area Redevelopment Act (Public Law 87–27), and for this work receives reimbursement from ARA. Amounts available from ARA in 1963 and 1964 were $303,911 and $362,000, respectively.

Rural areas development accomplishments.—The response of local communities, local leaders, State organizations, and Federal agencies to the rural areas development program has been significant and widespread. Active local leader-

ship Rural Areas Development Committees exist in more than 2,000 of the some 3,000 counties in the Nation. More than 66,000 local leaders are now serving on such committees. The services of the Federal, State, and local agencies have been organized into technical action panels in 2,785 counties.

The following are typical illustrations of recent progress reported under the rural areas development program.

Minnesota: Cooperative wild rice processing plant, brought into existence by local initiative and helped by Federal assistance, enabled the area's growers to receive from one-fourth to one-half million dollars more for their crop. The Area Redevelopment Administration loaned the co-op $29,500. The State loaned $9,000. The 167 members invested $100 each in stock, of which 35 members received loans from the Farmers Home Administration to purchase stock. Cooperative marketing enabled the growers to get 65 cents per pound for their rice, more than twice what they received the year before the co-op came into existence.

Indiana: Rural residents of Jefferson County now have an adequate, safe, and dependable supply of water, as the result of two water association loans. One hundred and twenty rural families, a rural school with an enrollment of 400, two churches, and a small business are served by the systems. The members put up $14,600 of the total cost of $218,600. Supplying water to this rural area was almost as great an event as when rural electrification came. It triggered a whole series of economic development—jobs, the building of bathrooms, purchasing of water heaters, tubs, toilets, sinks, and other improvements.

Alabama: Greensboro Manufacturing Co., a new sewing operation making sportswear for women and children was organized, supported, and operated by local people, through the efforts of the area's RAD committee. Greensboro Merchants Bureau launched a successful campaign which sold $35,000 capital stock to 45 local people. Today there are 76 new employees. Annual payroll is around $200,000. In addition, it is estimated that 129 indirect new jobs will result from this new industry.

Virginia: RAD committee floated a $2,500 stock bond, to maintain bus line in Craig County, which was to have been discontinued. Several local workers depend upon the bus for transportation to out of county jobs.

Kentucky: A new woodworking plant in Knox County is expected to have a good effect on the economy of the whole southeastern area of the State in providing new jobs, extra income for area's tree farmers, and extra business for area's merchants. Credit for the development rests with the cooperation of many agencies, working together with the area's people to help themselves.

Pennsylvania: Following an explanation of the RAD program, five fruitgrowers in the Martinsburg area met to discuss the possibility of converting an idle cannery into a modern apple packing plant. The growers put up cash, local businessmen sold stock and bought some themselves, a bank loaned about half of the funds required, a development corporation and the Pennsylvania Industrial Development Authority participated, and the Area Redevelopment Administration made a loan of $85,000 to finance the Cove Apple Packers Cooperative. The first year—1962—the cooperative sold $506,000 worth of apples, some of them to markets in Europe and South America. The growers have benefited; truckers, grocers, furniture stores, and other business firms have benefited; and over $60,000 in salaries were paid out the first year to employees of the cooperative.

Mr. WHITTEN. You might proceed with your general statement, if you will.

GENERAL STATEMENT

Mr. MACE. Thank you, Mr. Chairman. And I want to thank you and the members of the committee for your courtesies to us during the past two appearances we have made before this committee.

We have a small, but I consider it a very capable, staff to do the tremendous and delicate job of providing leadership, coordinating and maintaining liaison with departments and agencies of the executive branch, agencies of our Department, and State, local, private, civic, community, and farm organizations and individuals working for the improvement and betterment of the economic status of rural people.

FUND REQUIREMENT

Last year I was asked by a member of the committee if Parkinson's law was going to be needed to keep this program moving. My reply was, "No, sir." We are requesting funds for 1965 fiscal year to maintain our present staff of 35 employees. Eight of these employees will be paid from our request of $124,000 which we are presenting to this committee. This is only $4,000 more than our appropriation for 1964. The $4,000 increase is for the purpose of paying increased salary cost and within-grade pay increases. We need this increase because our staff is so small we do not have any lapsed time wherein we can absorb this additional cost. The other 27 employees will be paid from funds advanced to the Secretary from the Area Redevelopment Administration of the Department of Commerce.

This accomplishment has been possible only because my small staff has contributed many hundreds of hours of their own time, without overtime compensation, in doing our job and with very excellent managerial supervision which has held our other costs to the very minimum.

The responsibilities of the Office of Rural Areas Development are to—

(1) Provide leadership and initiative to the formulation of plans for carrying out rural development programs of the Department of Agriculture;

(2) Coordinate and expedite the application of resources of Department agencies in assisting State, local, private, community, and farm organizations and individuals working for the improvement of economic conditions in rural areas; and

(3) Maintain liaison with appropriate departments and agencies of the executive branch and with officials of public and private organizations to assure coordinated effort in utilization of available resources in support of the rural areas development program.

DELEGATION OF ARA AUTHORITY

Our Office also coordinates work conducted by Department of Agriculture agencies under the Area Redevelopment Act and acts as liaison between Department of Agriculture agencies and other Federal agencies. It also assists and advises State and local governments and civic groups in processing projects under these programs.

WORK IN FISCAL YEAR 1964

Progress has been made during the past year in—

(1) Understanding and utilization by local people of the concept that through their own initiative, aided by the services and assistance of Federal, State, and local agencies, groups, and individuals, economic conditions in rural areas can be improved;

(2) Effective coordinated participation of all of the agencies of the Department of Agriculture in supplying requested services and assistance of value in moving toward economic development; and

(3) Broadened understanding by all Federal and State agencies of the need to develop and implement new and renewed efforts to have available upon request, services and assistance needed by local people in their economic development programs.

FIELD OFFICES

The field offices of the Office of Rural Areas Development in Vermont, Georgia, and New Mexico are serving as contact points for applicants for special assistance, as coordination points for the various agencies, and as avenues for exchange of information between Department of Agriculture agencies and other agencies of the Federal Government and of State agencies. Our employees work with other field agencies and expediters of these offices which give assistance to local representatives in developing and following through on project ideas and economic development suggestions. An important part of the work of our field people is to give special attention to project proposals that without such special attention might die in the nebulous idea stage instead of being pursued until the development is effective.

The field coordinators of the Office of Rural Areas Development headquartered in Washington and serving specific assigned portions of the Nation are doing work similar to that of the expediters located in the field, but in addition are assisting in the coordination of agency work at the Federal level.

RURAL DEVELOPMENT COMMITTEE

Coordination between Department and agencies of the executive branch of the Federal Government has been aided by the October 1963 Presidential Executive Order 11122, establishing a Rural Development Committee consisting of the Secretary of Agriculture as Chairman, the Secretary of Commerce, the Secretary of Labor, the Secretary of Interior, the Secretary of Health, Education, and Welfare, the Secretary of the Treasury, the Administrator of the Small Business Administration, and the Administrator of the Housing and Home Finance Agency.

Operating under the authority of this Executive order, an Interdepartmental Staff Group has been established to explore ways of strengthening the effectiveness of the coordinated governmental effort to respond to the expressed needs of local people.

Our experience to date has given positive evidence that rural economic development can be achieved, but this development will not come without special effort to give needed and wanted assistance according to the desires of local leaders in rural areas.

We feel that the coordinating, expediting group of the Office of Rural Areas Development is one of the least expensive and most effective tools which can be used within the executive branch to maintain a well-focused effort to continue the economic development of rural areas. Mr. Chairman, we will be glad to try to answer any questions you may have.

Mr. WHITTEN. Thank you, Dr. Mace.

ARA PROGRAM

Turning briefly to your place in the sun, what segment of the area redevelopment program has been transferred to the Department of Agriculture?

Mr. MACE. The broad program of the Area Redevelopment Administration as it is applied to the rural areas is that of providing loans in certain designated counties for industrial or commercial establishments, loans and grants for community facility programs with the ex-

ception that grants are not available at the present time due to exhaustion of the grant funds, providing technical assistance studies such as feasibility studies of new industrial processes, and the supplying of training programs under the Area Redevelopment Administration training program.

(Specific responsibilities follow:)

To be more specific, the program administered by the Area Redevelopment Administration in cooperation with various other agencies is authorized under the Area Redevelopment Act (Public Law 97–27). For the most part, the assistance authorized is restricted to those areas of the country which are characterized by persistent and substantial unemployment or extremely low family incomes. Consistent with the types of areas in which the act is operative, the program is directed toward the creation of new permanent jobs which will provide employment for the unemployed and better economic opportunities for those with substandard incomes.

Basically, four types of assistance are authorized, namely: loans for establishing or expanding commercial and industrial enterprises which will provide new jobs; loans and grants for constructing or installing public facilities, such as water and sewer systems which are required to generate and support job-producing enterprises; technical assistance to determine the feasibility of specific projects, to identify potential projects and to resolve other problems that may be retarding economic progress; and the training or retraining of unemployed workers to help them qualify for jobs which are available or will be created.

The act makes specific provision for the extension of assistance to qualified rural areas along with the designated urban areas. As of December 31, 1963, loans amounting to over $62 million had been approved to assist with establishing or expanding commercial and industrial enterprises in nonurban areas. During the same period, public facilities of various types had been financed with loans and grants of approximately $60 million. The expenditure of more than $2 million for technical assistance in rural areas had been authorized and 275 training programs had been initiated for the training of approximately 10,000 unemployed workers in such areas. As indicated previously, no funds are currently available for making grants in connection with public facilities.

(The following represent RAD activities:)

Progress of rural areas development and area redevelopment, Feb. 1, 1964

	Totals for all States and Puerto Rico			
	In ARA designated areas		In areas not designated	
	Feb. 1	Nov. 1	Feb. 1	Nov. 1
1. Committees established: County committees	1,067	1,040	1,028	992
2. Progress in formulating OEDP's:				
(a) Total number of counties that have completed the preparation of initial OEDP's	908	861	198	171
(b) Total number of counties that are preparing "revised" OEDP's	390	426	45	21
3. Progress in project work:				
(a) Number of projects in planning stage	2,448	2,324	2,048	1,950
(b) Number of projects being implemented	1,876	1,721	832	730
(c) Number of projects completed	2,202	1,995	2,620	1,874
4. Meetings held by (last 12 months):				
(a) Overall county committees	5,185	4,989	3,816	4,018
		Feb. 1	Nov. 1	
(b) Overall area committees	----------	785	840	----------
(c) State committees	----------	88	89	----------
(d) State executive committees	----------	140	142	----------
5. Total membership of RAD committees:				
(a) Area	----------	4,628	5,220	----------
(b) County	----------	68,863	68,621	----------
(c) State	----------	1,862	1,852	----------
6. RAD leadership employed:				
(a) State level man-years	----------	84.68	85.93	----------
(b) Area level man-years	----------	91.80	90.63	----------
(c) County level man-years	----------	56.95	61.05	----------
7. State committees organized: Number (including Puerto Rico)	----------	43	43	----------

Mr. WHITTEN. You might place in the record the amount of money that is available to the Department of Commerce for its overall program. Now, of that, they transferred this year to the Department of Agriculture approximately how much money for the part that the Department handles? Do you have that, Mr. Grant?

Mr. GRANT. $1,513,000.

(The table requested follows:)

AREA REDEVELOPMENT ADMINISTRATION (COMMERCE)

Summary of funds available and budget estimate, fiscal years 1963, 1964, and 1965

[In thousands of dollars]

Item	1963 obligations	1964 funds available	1965 budget estimate
Operations:			
Area Redevelopment Administration	5,097	5,390	6,008
Delegate agencies (total)	(3,363)	(3,550)	(3,992)
Department of Agriculture	1,432	1,513	1,541
Department of Labor	1,268	1,378	1,387
Department of the Interior	373	396	404
Housing and Home Finance	282	98	495
Other (Business and Defense Services, Census, Internal Revenue Service)	8	165	165
Total, operations	8,460	8,940	10,000
Technical assistance	3,581	4,500	7,500
Total, operations appropriation	12,041	13,440	17,500
Grants for public facilities	33,995	(1)	(1)
Area redevelopment fund (total loan obligations—appropriations):			
1. Urban areas	24,773	56,610	67,838
2. Nonurban areas	36,127	60,038	67,207
3. Public facilities	29,522	15,352	34,955
Total loans	90,422	132,000	170,000
Total appropriations	136,458	145,440	187,500

[1] Proposed for later transmittal: $8,000,000 in 1964 and $35,000,000 in 1965—contingent on authorizing legislation.

USDA AGENCY RESPONSIBILITIES

Mr. WHITTEN. I am not talking about your own particular work at this moment, Dr. Mace, but what is the work that is transferred to the Department of Agriculture and which agencies handle what part of that, separate from your own activities?

Mr. MACE. I can speak to this in rather general terms.

Mr. WHITTEN. Do so and then supply for the record the details.

Mr. MACE. All right. The work in setting up and servicing industrial loans is handled by the Rural Electrification Administration.

Mr. WHITTEN. Is that by directive of the Secretary of Agriculture?

Mr. MACE. That is right, sir.

The handling of overall economic development programs and the handling of loan or grant applications for community facilities is handled by the Farmers Home Administration. Those things relating to the economy of the area such as technical assistance or economic justification for the designation of areas or the recommendation of designation of areas are handled by the Economic Research Service.

Now, these are the major ones. There are in addition services given by some of the other agencies.

(A description of these services follows:)

U.S. DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., July 23, 1963.

SECRETARY'S MEMORANDUM NO. 1448, SUPPLEMENTAL 1, REVISED

RURAL AREAS DEVELOPMENT PROGRAM, DELEGATION OF RESPONSIBILITIES UNDER PUBLIC LAW 87–27

1. Delegation from Secretary of Commerce

Public Law 87–27, Area Redevelopment Act (herein referred to as the act) provides that available services and facilities of all agencies of the Federal Government shall be used to the fullest practicable extent in carrying out the provisions of the act. The Secretary of Commerce, under date of July 20, 1961, and pursuant to such legislative directive, has delegated certain responsibilities to the Secretary of Agriculture. This memorandum redelegates those responsibilities within the Department of Agriculture.

2. USDA redelegations

The delegations of responsibility set forth in this memorandum are in accordance with those in Secretary's Memorandum No. 1448 and with the general assignments of responsibility to individual agencies as set forth in title 1 of the administrative regulations. Subject to direction and supervision by the Assistant Secretary for Rural Development and Conservation, as provided in Secretary's Memorandum No. 1448 (revised), and to the reservation of authority set forth in paragraphs 3 and 4 below, the following responsibilities under the Area Redevelopment Act, stated in the exact language of the delegation from the Secretary of Commerce, are hereby redelegated to individual agencies of the Department, as indicated.

(*a*) *Designation of redevelopment areas.*—"Find facts and provide data to be used in association with facts and data to be furnished by the Secretary of Labor and the Secretary of the Interior, by the Secretary of Commerce, in selecting the criteria and formulating the standards upon which areas which are essentially and fundamentally associated with agriculture and forestry shall be designated 'redevelopment areas' under section 5(b) of the act and more particularly classified as 'rural redevelopment areas.'

"Find facts and provide data and make recommendations to be used by the Secretary of Commerce in designating and classifying 'rural redevelopment areas' under the criteria and standards mentioned in the paragraph, next above.

"Review from time to time as provided in section 13 of the act the designation of 'rural redevelopment areas' and pursuant to such review to report information and data to the Secretary of Commerce necessary to enable the Secretary of Commerce to determine whether conditions have changed in any such 'rural redevelopment areas' so that such area is no longer eligible for further assistance under the act."

Assigned to Economic Research Service, supported and assisted by Statistical Reporting Service and other responsible USDA agencies.

(*b*) *Organizational and educational leadership.*—"Provide in 'rural redevelopment areas' organizational and educational leadership for orderly development of local economic initiative."

Assigned to Federal Extension Service.

(*c*) *Advice, assistance and information.*—"Provides advice, assistance, and information to individuals, committees, groups, and enterprises in 'rural redevelopment areas' regarding the application of the act, the implementation of proposed projects and the objectives of the approved overall economic development program for the area, and matters are set forth in section 10 of the act."

(1) Technical information and service—Assigned to Farmers Home Administration, supported and assisted by other responsible USDA agencies.

(2) Organizational and educational leadership—Assigned to Federal Extension Service.

(3) Implementation of proposed industrial and commercial projects, other than water facilities—Assigned to Rural Electrification Administration, supported and assisted by other responsible USDA agencies.

(4) Implementation of proposed industrial and commercial water facility projects and all community facility projects—Assigned to Farmers Home Administration, supported and assisted by Soil Conservation Service and other responsible USDA agencies.

(5) Review and development of policies—Assigned to Office of Rural Areas Development.

(*d*) *Overall economic development program.*—"Assist and furnish guidance to 'rural redevelopment areas' in preparation of overall economic development programs."

(1) Technical information and service—Assigned to Farmers Home Administration, supported and assisted by other responsible USDA agencies.

(2) Organizational and educational leadership—Assigned to Federal Extension Service.

(*e*) *Certification of overall economic development program.*—"Certify as a condition precedent to approval by the Secretary of Commerce as provided by section 6(b) of the act, that overall economic development programs for such areas are consistent with general objectives of the economic development of rural areas of the United States."

Assigned to Farmers Home Administration, with facts and data provided by Economic Research and Statistical Reporting Services and with advice and assistance of other responsible USDA agencies.

(*f*) *Technical assistance programs.*—"Recommend technical assistance programs for 'rural redevelopment areas' and to certify to the Secretary of Commerce that any proposed technical assistance program for 'rural redevelopment area' under section 11 of the act, is consistent with the purposes of said section 11 of the act, as a condition precedent to final approval or authorization by the Secretary of Commerce of any such program in a 'rural redevelopment area'."

Assigned to Office of Rural Areas Development, with advice and assistance of responsible USDA agencies.

(*g*) *Loan and grants.*—"Certify to the Secretary of Commerce, as a condition precedent to approval by the Secretary of Commerce, that a proposed project in a 'rural redevelopment area' for which financial assistance is sought under section 6, 7, or 8 of the act is consistent with the approved overall economic development program for such area."

(1) Industrial and commercial projects, other than water facilities—Assigned to Rural Electrification Administration, with advice and assistance furnished by responsible USDA agencies.

(*h*) *Special projects.*—"Furnish advice, assistance, and information in connection with projects and overall economic development programs in nonrural 'redevelopment areas' when the Secretary of Commerce finds that such projects or prospective projects in such nonrural 'redevelopment areas' are essentially and fundamentally associated with agriculture or forestry."

Assigned to the agencies designated in paragraph 2 d and e above, with respect to "overall economic development programs," the agencies designated in paragraph 2 f and g above, with respect to projects.

(*i*) *Coordination and expedition of ARA program in rural areas.*—Assigned to the Office of Rural Areas Development.

3. Functions and responsibilities of Rural Areas Development Board and Office of Rural Areas Development

There is hereby reserved to the Rural Areas Development Board and the Office of Rural Areas Development responsibility as set forth in the foregoing delegations for functions specified in Secretary's Memorandum No. 1448. In addition, the Director of the Office of Rural Areas Development is hereby authorized to perform the functions specified in paragraph 2 g and h above, when the agencies referred to therein cannot appropriately act.

4. Reservaton of authority to Assistant Secretary for Rural Development and Conservation

There is hereby reserved to the Assistant Secretary for Rural Development and Conservation authority and responsibility, as set forth in the foregoing delegations, for:

(*a*) Certifying to the Secretary of Commerce that overall economic development programs are consistent with the economic development of rural areas.

(*b*) Recommending technical assistance programs for rural development areas and certifying to the Secretary of Commerce that each program is consistent with the purposes of the Area Redevelopment Act.

(*c*) Recommending to the Secretary of Commerce criteria and standards to be used in the designation of rural redevelopment areas, recommending the designation and classification of areas, and the termination of eligibility of such areas.

CHARLES S. MURPHY, *Under Secretary.*

AUTHORITY AND RESPONSIBILITIES OF THE OFFICE OF RURAL AREAS DEVELOPMENT

Mr. WHITTEN. Then in between those agencies and the Department of Commerce and maybe the Secretary's Office, is that where your agency is located?

Mr. MACE. In a sense, sir, it is my role to see that the Area Redevelopment Administration program delegated to the Department of Agriculture is working effectively, that if by chance some new situation arises, then it is my role to bring the word to the Assistant Secretary or to the Secretary, that policy pronouncements need to be made or that possible changes in procedures need to be made.

Mr. WHITTEN. In other words, as I understand it, these applications that might be made for economic development or for a facilities loan or industrial loan, such applications are not filed directly with your organization?

Mr. MACE. That is right.

Mr. WHITTEN. Once they are filed with the REA in the one instance, or Economic Research in the other, or FHA in another, does that come to your attention, or do you provide the rules and regulations under which they are filed? You might describe in your own words how it really works.

Mr. MACE. The individual agency that is handling a volume of routine work develops their own routines for keeping track of it and for following through. We get information copies, for instance, of loans that are being sent forward in order that we can keep some record of what the overall operation of the program is. But we do not stand in a position of telling them how they have to keep a record of what has been done. That is a responsibility that is delegated to them and their administrative direction to it is with the Secretary's office or Assistant Secretary.

Mr. WHITTEN. Other than keeping all this in one package so you in turn can report to the Secretary of Agriculture or the Secretary of Commerce, what is the necessity for pulling these things together? What is the basis for having your unit above these three agenceis?

Mr. MACE. To see that all of the different facets of this program are operating and operating smoothly, to help develop new policies, new procedures that are needed in order to make it work more effectively, to look for places where two or more agencies may be involved in order to have an adequate handling of a particular problem. And

in such instances be sure that the agencies involved do get together and do come to a common understanding which is effective in pushing the program forward.

AVAILABLE FUNDS

Mr. WHITTEN. How much money was handled by RAD last year? By that I mean this overall rural development program as well as the other? What is the total amount for the three? Do you have that available?

Mr. MACE. Could I ask Mr. Smallwood to respond to that?

Mr. SMALLWOOD. Mr. Chairman, I don't understand the question. Do you mean the amount of loans that were made by the Department?

Mr. WHITTEN. Yes.

Mr. SMALLWOOD. The Office of Rural Areas Development does not have any program funds. We have only the small administrative funds which we are requesting here and what is given to us by Area Redevelopment Administration of the Department of Commerce. These are all the funds that we directly disburse. I do not know the amount of program funds disbursed by other agencies for the benefit of the rural development program.

Mr. WHITTEN. I wish you could supply those for the record. I was trying to find the volume of activity of the Department that does come under this program. Do you have that, too, Mr. Grant?

FUNDS SPECIFICALLY FOR RURAL AREAS DEVELOPMENT

Mr. GRANT. I have a table, Mr. Chairman, which reflects the funds specifically provided for Rural Areas Development activities. In response to your first question, practically all of the Farmers Home Administration funds, for instance, really contribute to rural development. But we have included in this table only those appropriations provided specifically for rural areas development.

Mr. WHITTEN. That is what I am asking. I am trying to find the volume of work in this rural development field that this unit deals within the capacity that they have discussed.

Mr. GRANT. This does not include the loans which are made by the Small Business Administration—that could be added.

Mr. WHITTEN. I wish you would provide that. That would not come under Dr. Mace's supervision.

Mr. GRANT. No.

Mr. WHITTEN. You might make a note that it does not include this.

Mr. GRANT. The Department does review proposals developed in the field that come up for recommendation for ARA loans by the Small Business Administration.

Mr. WHITTEN. Yes.

Mr. SMALLWOOD. And ARA. Does this include ARA, Mr. Grant?

Mr. GRANT. No, we will have to add that.

(The tables requested follows:)

Appropriations specifically for Rural Areas Development

In addition to the amounts reflected in this table, appropriations for the ongoing programs of the various Department agencies will support rural development and land use adjustment activities.

Agency and activity	1963		1964		1965	
	Man-years	Amount	Man-years	Amount	Man-years	Amount
Office of Rural Areas Development	3	$84,690	8	$120,000	8	$124,000
For authorities under Food and Agriculture Act of 1962:						
Agricultural Stabilization and Conservation Service (sec. 101):						
Cropland conversion program	------	1,850,000	------	[1] 15,350,000	------	10,000,000
Conservation reserve contract extensions (where contracts expire Dec. 31, 1962)	------	150,000	------	6,000,000	------	------
Subtotal, ASCS	------	2,000,000	------	21,350,000	------	10,000,000
Soil Conservation Service: Resource conservation and development (sec. 102)	------	------	33	1,500,000	108	2,044,000
Farmers Home Administration:						
Rural renewal (sec. 102)	------	------	9	1,200,000	22	2,190,000
Real estate loans (farm ownership and soil and water loans for recreation developments and shifts in land use) (sec. 401)	------	------	------	10,000,000	------	6,000,000
Subtotal, FHA	------	------	------	11,200,000	------	8,190,000
Extension Service: To strengthen the RAD program and increase educational activities	------	1,000,000	------	2,000,000	------	2,000,000
Economic Research Service: To develop estimates of national and regional land requirements and study alternative uses of land	------	------	11	132,200	11	128,800
Additional authorities for Farmers Home Administration:						
Senior Citizens Housing Act of 1962:						
Rural housing for the elderly revolving fund (sec. 515(a))	------	------	------	[2] 4,500,000	------	5,000,000
Insured loans for rental housing for the elderly (sec. 515(b))	------	(117,000)	------	(5,000,000)	------	[3] (5,000,000)
Building loans to elderly individuals	------	(3,302,090)	------	(10,000,000)	------	(15,000,000)
Housing Act of 1961: Domestic farm labor housing (sec. 514(a))	------	(221,000)	------	(3,000,000)	------	(6,000,000)
Total appropriations	[4]	3,084,690	[4]	40,802,200	[4]	27,486,800
Total loans (FHA)	------	(3,640,090)	------	(18,000,000)	------	(26,000,000)

[1] Includes proposed supplemental in the amount of $10,000,000.
[2] Includes $1,000,000 brought forward from 1963.
[3] Authority to make insured loans for rental housing for the elderly will expire June 30, 1964, but extension of this program is being proposed.
[4] Man-years shown where applicable. Loan and other program funds do not cover personnel employment.

NOTE.—In addition to the above, rural housing building loans to farm and nonfarm rural residents were $183,000,000 in fiscal year 1963 and are estimated to be $122,000,000 in 1964 and $355,000,000 in 1965 (assuming enactment of an insured rural housing loan program).

Funds transferred from Area Redevelopment Administration, Commerce—fiscal years 1963, 1964, and 1965

Agency	Man-years [1]			Amount [2]		
	Actual, 1963	Estimated		Actual, 1963	Estimated	
		1964	1965		1964	1965
Office of Rural Areas Development	16.5	26.0	26.0	$3(3,911	$377,000	$381,000
Farmers Home Administration	30.6	34.0	34.0	338,728	350,000	360,200
Rural Electrification Administration	28.6	28.0	28.0	338,261	350,000	356,000
Economic Research Service	6.5	5.2	5.2	62,367	60,000	62,000
Statistical Reporting Service	1.0	2.0	2.0	11,047	17,000	17,800
Agricultural Stabilization and Conservation Service	8.3	4.0	3.5	78,035	75,000	76,000
Federal Extension Service	5.8	6.5	6.5	87,786	80,000	82,000
Farmer Cooperative Service	1.2	1.5	1.5	20,194	20,000	20,500
Soil Conservation Service	8.0	6.0	6.0	73,274	80,000	80,000
Forest Service	3.0	6.0	6.0	45,215	65,000	66,000
Office of Information	2.0	2.0	2.0	30,776	30,000	30,000
General administration	.9	.9	.9	15,094	9,000	9,000
Total	112.4	122.1	121.6	1,404,688	1,513,000	1,540,500

[1] Distribution is about 50–50 between Washington and the field service.
[2] Technical assistance and research on special ARA projects (transfer from Department of Commerce) amounted to $268,257 in 1963; $164,875 (amount available through Feb. 18, 1964) in 1964; and were not determined for 1965.

ARA projects referred to USDA for consideration [1] (loans and grants)

[Dollar amounts in thousands]

	Number of projects	Number of trainees	Amounts involved		
			ARA	Othe	Total
Commercial-industrial and public facilities	749	----------	417,234	214,068	631,302
Technical assistance	214	----------	9,442	----------	9,442
Training programs	366	13,324	[2] 5,575	----------	[2] 5,575

Data from inception in 1961 through March 24, 1964. In addition to these projects, assistance has been provided to varying degrees in connection with projects financed through Small Business Administration, Community Facilities Administration, and other Federal or State agencies; also, with funds from private sources. Information as to number of projects and amounts involved not available.
[2] Amount estimated for 89 of the 366 projects.

Mr. WHITTEN. Now, in this matter of bringing these together, or making these parts fit a given plan, what authority do you have to say "No," Dr. Mace, or say "Yes?" Just what is your authority in this field?

Mr. MACE. My authority is that of serving as an arm of the Assistant Secretary in getting this job going, in keeping the various parts moving and removing any blocks and difficulties that may be in the way. This does not put me in the position of having to make final decisions on loans that they shall or shall not be approved.

Mr. WHITTEN. Do you keep up with the number of applications that have been received and how expeditiously they move or anything of that sort?

Mr. MACE. Yes, sir. We have a record of the volume of Area Redevelopment Administration applications of the different types and have periodic reports from field agencies of other applications of the rural areas development concept and process.

FIELD OFFICES

Mr. WHITTEN. Do you have any branch offices of your unit anywhere outside of Washington?

Mr. MACE. Yes, sir, we have three offices: One at Montpelier, Vt.: one in Georgia; and one in New Mexico.

Mr. WHITTEN. What do these offices do?

Mr. MACE. The men that man these offices act as contact points for people looking for ways to get the benefits of economic development. They serve as the go-betweens of the various agencies as the demand for assistance gets settled into Soil Conservation, or Farmers Home Administration, or some other agency. They provide the manpower to follow through on some nebulous idea or maybe developing a new lake or water supply or new plant and carry this on through from the nebulous idea until it is an actuality, provided it is sound.

DESIGNATION OF RESPONSIBILITIES WITHIN USDA

Mr. WHITTEN. There have been lots of criticism in the press and some in the Congress about the REA having made a loan for a ski lift. I believe that the testimony shows that the ski lift operation has proven to be a financial success. I personally raise the question whether the REA should be in this field in view of the fact that they have all they can handle with their controversies with the private power companies. It would be much better, from my point of view, if such things are going to be done, that they be done by the FHA. You don't have anything to do with which agency is assigned this type of work, or do you?

Mr. MACE. Not really, sir.

RURAL AREA DEVELOPMENT COMMITTEES

Mr. WHITTEN. Do you have a system to make recommendations such as a committee revolving around your own office or in the area of the other offices you mentioned?

Mr. MACE. Yes, sir. Each of the counties is encouraged to have a rural area development committee made up of local leaders covering the entire economic area of the county and representing the groups that are interested in economic development in that particular county. This will include people in the little towns, the ministers, the bankers, the businessmen, the farm leaders, the civic leaders, service clubs, all of those people that show an indicated interest in economic advancement for their area.

The Extension Service was given the responsibility for seeing that these committees came into existence and operated effectively. They are now reported to be operating in about two-thirds of the counties of the Nation, some 2,000 counties.

Mr. WHITTEN. Serving with pay or is that a community effort?

Mr. MACE. Community voluntary effort.

Mr. WHITTEN. Who keeps a record of those committees?

Mr. MACE. The Extension Service.

The States also have a voluntary committee made of the same type of people. In the overall rural area development program at the national level, we have a committee of 39 people that serve as an advisory committee to the Secretary.

ARA LOAN TO SOUTH CAROLINA TEXTILE MILL

Mr. WHITTEN. The Senate was having lots of debate and quite a bit of contested action on the wheat-cotton bill. The primary purpose of the cotton bill is to do something about the problem with synthetic fibers. While that debate was going on and while we were passing a farm program to provide some degree of competitive relationship between cotton and synthetics, it was announced that the ARA, which I know is in the Department of Commerce, had made a loan of $3 million to set up a textile mill to use synthetic fibers in one of the Southern States.

Now, would your office have any connection with that kind of a loan? Would you have approved that, or is it your job to approve that type of grant or loan?

Dr. MACE. Not mine directly, sir. I do enter into it to some extent in that we are concerned with the policy that would affect competition between industries, that would affect the continuation and preservation of the family farm and in this interest provide some policy guidance to the agency that does handle the loans.

Mr. WHITTEN. This is Commerce, as I understand it, but would you counsel with them on setting up a textile mill to use synthetic fibers at the very time we were trying to spend millions of dollars to protect cotton from synthetic fiber?

Mr. MACE. If this was in a county that wae one of the rural designated counties, we probably saw the loan docket at some stage.. If it was in a 5(a) area, one that is not designated to the rural part, then we probably did not see the docket.

Mr. WHITTEN. I would like for you to supply the real facts for the record. This was said to be at Allenberg, S.C. You may not remember offhand. There are two things to consider. The textile mill at Allenberg, S.C., might have been an essential part of providing jobs and that sort of thing. The decision to make it a mill to use synthetic fibers is the thing that strikes me as being thoroughly inconsistent. If the Government is doing that with one hand while it spends billions of dollars trying to protect natural fiber from synthetics, I can't understand that at all. We would like for you to supply us any information that you have insofar as any contact your agency had with this loan.

Now I will ask you the "$64 Question." Did you have anything to do with deciding that it would be for synthetic fibers instead of natural fibers?

Mr. MACE. As far as my particular office is concerned, no, excepting this policy structure that I was talking about.

Mr. WHITTEN. Do you have any policy under which you advocate the use of synthetics? I thought this was an Agricultural Department we were dealing with and an agricultural part of the program that was given to us. It strikes me that if you came in contact with this loan, you would have to recommend that they use agriculture commodities. However, at this point, I don't believe you said that you were in on this. But I would like the full story for the record.

Mr. MACE. I will be glad to supply it, sir.

(The information requested follows:)

The project referred to is apparently one located at Allendale, S.C.

In November 1963 a project proposal from Kenlon Mills, Inc., Allendale, S.C., was referred by the Area Redevelopment Administration to the Department of Agriculture for comments and certification since Allendale County is a designated rural area. The Department responded on January 7, 1964, and commented favorably upon the project. In reviewing the proposal various USDA agencies were consulted and it was determined that the project was not inconsistent with the Department's family farm or other policies. On March 5, 1964, an Area Redevelopment Administration loan of $1,690,000 was approved for this applicant.

Spinning mill facilities will be constructed for producing yarns from synthetic fibers and blends with cotton and wool. Total cost of the project will be $2.6 million, including ARA loan funds, a $520,000 loan from Carolina Commercial Bank, Allendale, a $260,000 investment by Allendale County Industrial Development Corp., and $130,000 provided in equity by the mill company.

The local development corporation gave strong support, negotiating utility services and special tax arrangements, recommending the project to ARA, supplying $260,000 in land, site improvements and cash, and helping negotiate the bank loan.

Allendale County agreed to build a 200,000-gallon elevated water storage tank with pumps and wells adjacent to the site for the needed water supply.

This plant is expected to employ 204 workers, and trucking and other service firms are expected to require a minimum of 20. At the present time, the Allendale area's industrial payroll is only 250 employees. During recent years, the area has had a rising level of unemployment due to mechanization of farming processes and other technological changes. Through the mill operation, industrial employment in the area will rise 58 percent.

Allendale County is a leading cotton-producing area, producing the highest yield per acre in the State in 1960, according to the South Carolina Crop Reporting Service.

The overall economic development program for the county was developed by the Allendale County Rural Areas Development Committee, which includes such agriculture spokesmen as representatives of the Farm Bureau, ASCS, the county agriculture committee, Young Farmers, and others. The OEDP points out the need for industrial employment to offset declining opportunities in farming.

The chairman of this county RAD committee wrote: "The Allendale County Rural Areas Development Committee heartily endorses this project." The South Carolina State RAD Committee, representing farm and other rural interests in this cotton-producing State, reviewed this project proposal and recommended it, as did the South Carolina State Development Board.

In its RAD activities, the Department of Agriculture places special emphasis on the development of commercial and industrial projects which not only create employment but also provide better markets for farm products. Special attention is given, therefore, to the initiation of those projects which process and market farm products.

In processing ARA project proposals from rural areas initiated without the assistance of the Department of Agriculture and not involving the use of farm products at all or to the extent the Department might wish, the Department certifies only those which are determined to be beneficial to rural areas and not harmful to the family farm. It was on the basis of such a determination that this particular project was looked upon favorably by the Department of Agriculture.

Mr. WHITTEN. Mr. Natcher?

Mr. NATCHER. Mr. Chairman, I have no questions, but I would like to thank Dr. Mace and my friend John Smallwood and the other members of your staff for appearing before our committee at this time.

Thank you, Mr. Chairman.

Mr. WHITTEN. Mr. Horan?

Mr. HORAN. I want to say that this subcommittee was rather impressed with your presentation last year, Dr. Mace. We think that there are things that can be done in the field of economic improvement in almost any county, if it does nothing more than make people in the four corners of the county acquainted. However, we are—I think, I speak for the committee—a little surprised that your powers to act were not as strong as we thought they should be. Has anything occurred to improve the status of your office during the year? I see you are still here; that is some evidence.

Mr. MACE. The authorities for my operation have been continued about as they were.

Mr. HORAN. Do you think that things could be done contrary to the economic facts of life?

Mr. MACE. I would have to make a qualified response to that. In some instances, yes. It depends on the facts, of course, the time and what is attempted.

Mr. HORAN. I wonder if you would provide us with some of the examples of the work that your office would list as achievements during the year, specifically.

Mr. MACE. One of the achievements, Mr. Horan, has been the starting of the work of the interdepartmental staff group that services the Rural Development Committee made up of the Secretaries of Agriculture, Commerce, Interior, HEW, Labor, Treasury, the Administrator of the Small Business Administration, and the Administrator of Housing and Home Finance Agency.

Mr. HORAN. Of course; that is at the top. What I am particularly interested in is what is going on in the field, where the problem is. What happens in the field? I saw one of the local papers ran a series of articles on the pockets of poverty around the Appalachian area. One in particular, which I saved, concerned Uniontown, Pa., who were probably the most hopeful of all of those rather dismal articles, because the people there in that area were doing something about. But there the man that they quoted, asked him about Federal programs, and he says, in effect, "Well, they come in here and they study us and they study our problems and they study us some more," and he says, "but they never get so much done." He said, "Sometimes we study their studies, but by and large we try to do things for ourselves."

You stated the responsibilities of the Office of Rural Areas Development:

(1) is to provide leadership and initiative in the formulation of plans for carrying out rural development programs of the Department of Agriculture with the assistance of the Extension Service.

And then you say:

Coordinate and expedite the application of resources of Department agencies in assisting State, local, private, community, and farm organizations and individuals working for the improvement of economic conditions in rural areas. Maintain liaison with appropriate departments and agencies of the executive branch with the officials of public and private organizations to assure coordinated effort in utilization of available resources in support of rural areas development programs.

And then you say:

Progress has been made during the past year and understanding and utilization by local people of the concept that through their own initiative, aided by the services and assistance of Federal, State, and local agencies, groups and individuals, economic conditions in rural areas can be improved.

I don't question that. I do question the too-great dependence on the men at the top of the monolith being of any great assistance to these people. They have to help themselves and I think that is your basic philosophy; isn't it?

Mr. MACE. You are right, sir.

LOCAL ACTIVITY

Mr. HORAN. Now give me some examples of what is happening.

Mr. MACE. In our Vermont office, 17 projects have been completed. These are projects that have been conceived by the local people and have been carried out by various forces, some of them private forces, probably in large part private forces.

Six of these are commercial-type projects, seven are public facilities, four relate to recreation. Eighty-one jobs have been created and when the work is completed on those that are underway, there will be 990 jobs created.

The type of projects, to be a little more specific, are such a community center for selling products made by elderly people; financial assistance for a motel; the improvement of a furniture manufacturing plant; the expansion of a woodworking plant.

In Georgia, we have a record of a new civic and recreational center, a nursing home, a recreation area, a pecan and muscadine processing and marketing installation, a casket manufacturing plant.

From New Mexico, a recreational complex in Albuquerque, a mental health complex for children, a paint manufacturing plant, a furniture plant, the expansion of a mine operation in a seven-county area.

JOBS CREATED

In all, as of December 31, there were some 4,274 projects over the country in the planning stage, 2,451 that were being implemented, and 3,869 completed or a total completed, underway, or planned of 10,594.

We estimate that these will create jobs for at least 127,000 people. This can be direct jobs.

Mr. HORAN. Those are all the ones you have told me about?

Mr. MACE. Yes, sir. And the direct jobs plus the additional jobs, people that came to take in the washing for the people that were working on the job, would add up to at least 135,000.

SOURCE OF LOAN FUNDS

Mr. HORAN. How are they financed?

Mr. MACE. Our records indicate on a sample basis that only about 10 percent of the money going into these projects is Federal money——

Mr. HORAN. From what source?

Mr. MACE. Banks, people's own savings——

Mr. HORAN. Federal money?

Mr. MACE. Federal money from ARA or Housing and Home Finance Agency, or from Small Business Administration, or from Farmers Home Administration, section 5 loans from REA cooperatives, or some source of that kind.

Mr. HORAN. Could you indicate what source and how much? Do you have those records?

Mr. MURPHY. I am sure we do. We will be very glad to see if we can't supply them if Dr. Mace does not have them with him.

Mr. MACE. I am sure, sir, we can on a sample basis. I can't do it for all 10,500 projects.

Mr. HORAN. I don't want to be unreasonable, and as I say, I was impressed with you last year. I think you have a down-to-earth approach to this thing. It has been my experience, however, that ARA as an institution doesn't have too good a standing in the House of Representatives at least.

What you have said, Dr. Mace, is rather encouraging to me because these things you have mentioned I would like to know more about these in detail, however, and I think this subcommittee would too. They are using a minimum of Federal funds and a maximum of local funds and that is all to the good and these people are being taught that they can improve their own status. I would go along with that, but with all due respect to Secretary Murphy and Secretary of Agriculture Freeman and all the rest of these gentlemen who are indicated here—of course these are honorary assignments I know. Somebody will have to do the work because they are too busy to carry on this—actually it is the man in the field that is making contact with these people that is able to perform these miracles against the facts of economic life, as you indicate sometimes happen.

So if you could supply us a little more in detail on this, and give us some more facts on the source of these funds and terms under which they are advanced, we can judge by geographical location of the areas and the type of enterprises, whether or not they are flying in the face of economic facts of life as they might apply to that given area.

You see, my counties that are in this designated group are very far from highways, main railroads, or any population that might comprise the market for minerals and lumber, which is the main natural resource. However, they have made some headway.

Mr. MACE. Yes.

Mr. HORAN. With a minimum of outside investments. So, Mr. Chairman, if Dr. Mace would supply us with the information that I have requested, and in such detail as you could get, I would appreciate it.

Mr. MACE. I will be glad to do so.

Mr. HORAN. I promise you I will study it.

(The information requested follows:)

Local rural areas development committees are not required to report to the Federal Government information about the various projects which they undertake. However, as a result of partial surveys made in 2 successive years in a representative number of the counties with organized committees, limited information was compiled regarding 535 commercial and industrial projects on which action had been initiated. The information obtained indicated that the projects fell into the following categories:

Production and marketing of agricultural products	110
Forest products	50
Recreation	68
Other commercial and industrial enterprises	307

Of the 535 projects, 419 were new projects and 111 were expansions of existing enterprises. The other five projects were not identified from this standpoint.

It was further indicated that the investment in these projects amounted to about $500 million. Over 90 percent of the financing required came from non-Federal sources. The remaining 10 percent was supplied primarily by the Area Redevelopment Administration and the Small Business Administration, with a lesser amount by the Farmers Home Administration and other Federal sources.

Mr. WHITTEN. Mr. Michel.

INDUSTRIAL DEVELOPMENT COST PER MAN-YEAR

Mr. MICHEL. Doctor, I am reading from a rural areas development newsletter under date of February 1964 and I see that in the area of industrial development, ARA estimated more than 20,000 jobs have been or will be created by these funds and by "these funds" they are referring to $83 million in loans and grants for 159 commercial and industrial or public facility projects in rural areas.

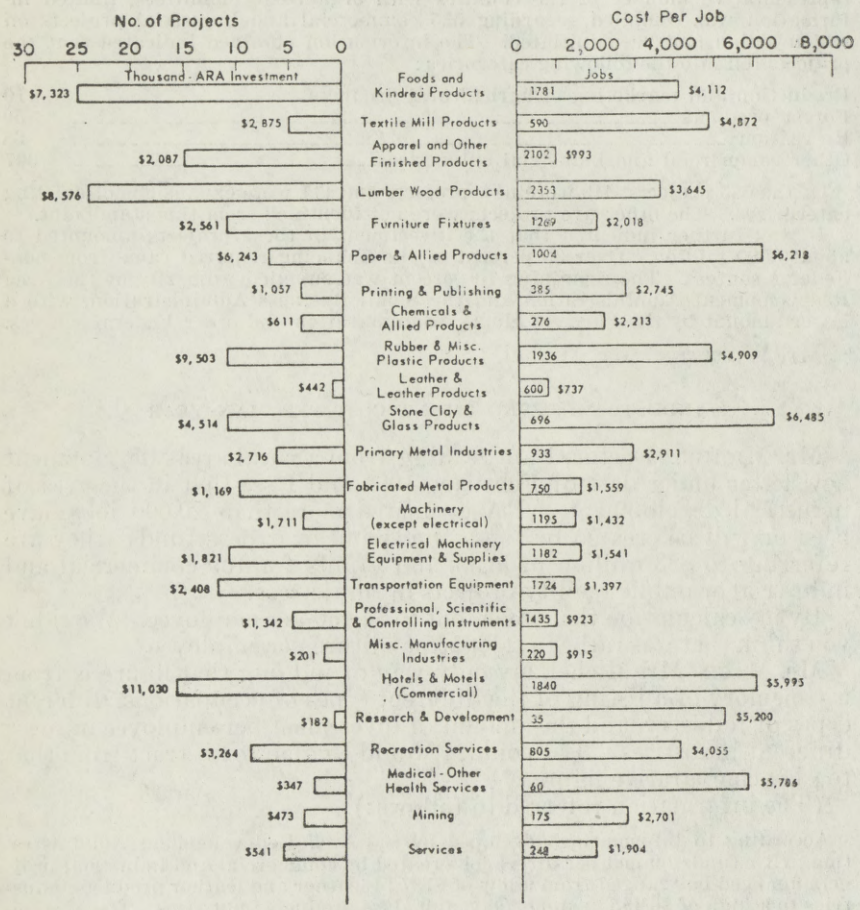
By my calculation that comes out to $4,150 per employee. Wouldn't you think that was rather a steep expenditure per employee?

Mr. MACE. Mr. Michel, my only way of judging that figure is from my memory of a listing of the different types of occupations, different types of industry, and the amount of investment per employee in these different industries. If I could, I would be glad to abstract from that to give comparative figures.

(The information referred to follows:)

According to information developed by the Area Redevelopment Administration, ARA funds loaned per direct job created by commercial and industrial projects financed has ranged from a low of $737 in leather and leather products industries to a high of $6,485 in stone, clay, and glass products industries. The average is $3,087. The comparable figure for public facilities financed is $2,703. The following chart taken from the Annual Report of the Area Redevelopment Administration for 1963 gives the breakdown by major categories.

INDUSTRIAL COMMERCIAL LOANS
NUMBER OF PROJECTS / COST PER JOB
BY INDUSTRY AS OF JUNE 30, 1963



From "Annual Report on the Area Redevelopment Administration of the U.S. Department of commerce, 1963."

Other information compiled from data supplied by the Bureau of Census and Internal Revenue Service indicates that the average investment in major manufacturing industry groups (all working assets) is $12,200 per employee. The investment per employee ranges from a low of $4,400 in leather and leather goods industries to a high of $56,000 per employee in petroleum and coal products industries. The following table provides more detailed information by major manufacturing industry groups.

TABLE II.—*Investment and employment relationships in major manufacturing industry groups: 1957*

Major industry groups by value of "working assets" per employee	Rank	SIC Code	Total gross book value (million dollars)		All employees (thousands) [3]	Gross book value per employee (dollars)		Rental payments per $100 of property costs and expense (dollars) [4]
			Depreciable and depletable assets [1]	All "working assets" [2]		Depreciable and depletable assets [1]	All "working assets" [2]	
All industries, total			110,489	203,000	16,630	6,644	12,200	7.7
Petroleum and coal products	1	29	7,936	10,400	186	42,770	56,000	4.4
Tobacco manufactures	2	21	400	2,700	88	4,535	31,000	8.5
Chemicals and products	3	28	13,105	19,200	764	17,155	25,000	3.8
Primary metal industries	4	33	17,329	23,500	1,272	13,624	18,500	1.7
Pulp, paper, and products	5	26	7,165	10,200	566	12,662	19,900	5.4
Stone, clay, and glass products	6	32	5,153	7,500	526	9,804	14,200	3.4
Rubber products	7	30	1,782	3,700	260	6,858	14,000	5.8
Food and kindred products	8	20	11,731	22,000	1,688	6,949	13,000	10.1
Machinery, except electrical	9	35	9,421	21,900	1,707	5,517	12,900	9.0
Fabricated metal products	10	34	5,713	13,600	1,114	5,131	12,200	10.4
Instruments and related products	11	38	1,263	3,400	307	4,111	11,100	12.3
Electrical machinery	12	36	4,089	10,900	1,084	3,771	10,000	11.3
Transportation equipment	13	37	9,303	18,400	1,900	4,895	9,700	6.7
Textile mill products	14	22	4,984	9,200	989	5,039	9,300	7.5
Printing and publishing	15	27	3,698	7,200	867	4,262	8,200	23.9
Lumber and wood products	16	24	2,917	4,800	646	4,518	7,400	4.9
Manufactures, not elsewhere classified	17	39	1,987	4,500	665	2,987	6,900	18.8
Furniture and fixtures	18	25	1,041	2,300	375	2,777	6,000	22.2
Apparel and related products	19	23	1,006	5,800	1,264	796	4,600	46.5
Leather and leather goods	20	31	467	1,600	362	1,290	4,400	29.6

[1] Source: 1957 Census of Manufactures Special Report MC58(1)-9, U.S. Department of Commerce, Bureau of Census. (Based on value reported by establishments. See text.)
[2] "Working assets" include those in col. 1, plus values for current assets and land reported to the Internal Revenue Service by corporations, 1957-58. (See text.)
[3] Source: Annual Survey of Manufactures, 1957, U.S. Bureau of the Census.
[4] Source: Same as footnote 1. (See text.)

NOTE.—Columns may not add to totals because of independent rounding.

Mr. MICHEL. I think it might not be a bad idea. Of course, we know in private industry that in a big industrial plant, it is nothing to have an investment of $15,000 to $20,000 per employee, but here we are talking about Federal funds, and I think you have made in your testimony some to-do about the great local and State participation in this program, and the Federal Government is more or less serving simply as a stimulating agent.

POVERTY PROGRAM

I see further in this release that Secretary Freeman has said that, "We are engaged in a two-phased drive against poverty. The first phase is the alleviation of poverty through programs that provide temporary relief such as food distribution to the hungry, and grants to make rural homes livable during the winter."

Now where were these homes and how many of these homes have been made livable during the winter under this program?

Mr. MACE. I believe this refers to a part of the Farmers Home Administration programs.

Mr. MICHEL. All right. Wouldn't that have been done without any Office of Rural Areas Development?

Mr. MACE. Yes, sir.

Mr. MICHEL. Then the question arises, why do we need the Office of Rural Areas Development if it was going to be done anyway?

Mr. MACE. The Office of Rural Areas Development has the responsibility for keeping the focus on a concentrated program of doing something about the economic development of rural areas—a good focus on these areas so that we do have substantial economic development of——

Mr. MICHEL. You are saying these other agencies that are really doing the work then, aren't performing their proper function? It seems to me that is why we have been appropriating money for these various agencies to take on these programs. If it is Farmers Home Administration, I still haven't gotten firmly in my mind the necessity for the outer layer of administration.

Mr. MACE. I am not implying that they are not doing a good job. The work that they have done over the years and are doing now is making an important contribution to the economic development of rural areas. My job is only that of seeing that this is coordinated and focused to go with the work of the Soil Conservation Service, the Small Business Administration, Housing and Home Finance Agency, the agencies of the State of Vermont, and local efforts.

Mr. MICHEL. Doctor, I am still now reading from this release in which the Secretary said, "35 million Americans, 1 in 5, exists in poverty." I am reminded of the late President Kennedy's statement in 1960 that 17 million Americans were going to bed hungry. And that in January 1963 President Kennedy said, 32 million Americans are living on the edges of poverty. In 1964 President Johnson in his state of the Union message said, "40 million Americans are living in the clutches of poverty."

Now I see the Secretary stating that "35 million Americans, 1 in 5, exists in poverty."

The definition of a poverty stricken family is one whose net income is less than $3,000 a year, net income, I would underline that, and I am reminded of a recent public statement of a member of the other body in disclosing his income for the year and his net worth and the fact that he paid taxes with several hundred thousand dollars of property on a net income of just three times what you regard here as placing one in a category of being poverty sticken. Do you think that is a proper rule of thumb for designating one as being in the throes of poverty if his net income shows him to have an income of less than $3,000?

Mr. MACE. Yes, sir.

Mr. MICHEL. Notwithstanding my prefacing remarks of what the difference might be between net income and gross income?

Mr. MACE. Yes, sir.

Mr. MICHEL. All I can say is it is pretty hard for me to figure that as a proper rule of thumb to be used.

HOUSING GRANTS

I see further in this release that some programs such as housing grants are available only to rural people. And that the Department of Agriculture makes grants to needy rural families for essential housing repairs. Since July 1 nearly 1,500 families received small grants to make their substandard homes more livable. Now, where were these 1,500 families located?

Mr. MACE. Again, sir, that is a program of the Farmers Home Administration.

Mr. MICHEL. Could you tell me where it would be?

Mr. MACE. I will be glad to supply it for the record.

(The information requested follows:)

Rural housing sec. 504 grants made, fiscal year 1964 through Feb. 29

	Number		*Number*
Alabama	44	New Jersey	1
Arkansas	167	New Mexico	5
California	2	North Carolina	134
Colorado	1	North Dakota	4
Connecticut	1	Ohio	1
Florida	35	Oklahoma	38
Georgia	66	Pennsylvania	16
Idaho	3	South Carolina	21
Illinois	1	South Dakota	3
Indiana	2	Texas	78
Kansas	26	Vermont	4
Kentucky	796	Virginia	2
Louisiana	4	Washington	1
Maine	52	West Virginia	10
Michigan	11	Wisconsin	4
Minnesota	8	Wyoming	7
Mississippi	246	Puerto Rico	67
Missouri	137		
Montana	4	Total	2,003
Nebraska	1		

Mr. MICHEL. Is your shop to be one of the coordinating sources of information for this whole area of rural areas development? If that is one of the things that you are talking about as being accomplished, it would seem to me that would be very readily available. But if you will supply it for the record, I would be glad to have it.

Mr. GRANT. Mr. Michel, the justifications include a table, immediately following page 141, showing a breakdown by States of the funds used for both rural housing loans and grants. In the fiscal year 1963 these grants amounted to $1,024,785.

Mr. MICHEL. Mr. Grant, is there any way of telling how much for that same purpose would have been spent last year?

Mr. GRANT. This is last year.

Mr. MICHEL. For the year before?

Mr. GRANT. Yes, it is available. I don't happen to have it with me, but we had the same information last year.

(The information requested follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Table I - Rural Housing Loans: Funds Obligated and Furnished by Borrowers, and Use of Funds, 1962 Fiscal Year

State and territory	Loans to new borrowers														Number of loans to indebted borrowers	Amount of loans to indebted borrowers and loan costs 2/	Total amount of loans and grants
	Number	Amount of funds				Use of funds											
						Dwellings				Other buildings (new and repair)		Water systems 1/		Amount of fees			
		Loans	Grants	Furnished by borrower	Total	New		Repair									
						Number	Amount	Number	Amount	Number	Amount	Number	Amount				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
U. S. Total:																	
Percent distribution.	-	-	-	-	100.0%	-	81.2%	-	8.5%	-	7.9%	-	1.8%	0.6%	-	-	-
Amount	10,818	$94,054,759	$69,390	$4,289,738	$98,413,887	7,327	$79,916,807	2,420	$8,324,004	2,855	$7,804,793	2,687	$1,740,599	$627,684	641	$2,321,193	$96,445,342
Alabama	706	6,318,640	970	454,234	6,773,844	598	6,154,953	82	324,248	45	124,015	266	124,393	46,235	21	65,574	6,385,184
Alaska	46	778,116	0	2,521	780,637	32	599,672	12	74,190	13	77,758	15	24,003	5,014	0	0	778,116
Arizona	38	445,440	0	6,333	451,773	29	382,299	5	29,260	3	29,350	1	8,444	2,420	0	0	445,440
Arkansas	479	3,044,205	8,700	174,741	3,227,646	322	2,709,197	124	302,664	49	137,210	115	54,533	23,942	24	60,058	3,112,973
California	115	1,470,900	0	57,689	1,528,589	88	1,194,281	18	117,449	52	180,737	25	25,467	10,655	12	64,116	1,535,016
Colorado	127	1,316,190	0	30,249	1,346,439	78	1,061,145	43	175,710	43	76,469	29	19,373	13,742	13	53,757	1,369,947
Connecticut	13	137,120	0	3,375	140,495	9	119,775	3	11,378	3	5,050	5	3,169	1,123	0	257	137,377
Delaware	14	153,900	0	21,544	175,444	12	159,074	0	0	3	14,600	2	500	1,270	0	0	153,900
Florida	331	3,243,410	0	148,943	3,392,353	271	3,049,867	50	227,160	26	66,740	58	31,890	16,696	15	64,794	3,308,204
Georgia	605	5,077,390	2,000	228,919	5,308,309	436	4,579,570	134	443,361	91	143,140	136	103,175	39,063	25	94,978	5,174,358
Hawaii	55	653,130	0	9,678	662,808	48	567,118	4	24,325	14	68,160	0	0	3,205	5	43,710	694,840
Idaho	140	1,372,335	0	33,723	1,406,058	73	961,314	58	316,184	43	83,862	34	35,720	8,978	7	11,887	1,384,222
Illinois	87	801,225	0	41,994	843,219	59	674,271	10	34,570	34	122,978	12	9,165	2,235	8	48,447	849,672
Indiana	145	1,410,835	0	49,297	1,460,132	106	1,277,627	22	74,550	45	95,525	19	8,773	3,457	7	16,142	1,476,977
Iowa	199	1,831,270	0	103,768	1,935,038	109	1,386,690	58	201,304	127	320,715	19	13,727	12,602	14	65,315	1,895,585
Kansas	199	1,741,560	370	55,779	1,797,709	114	1,446,770	49	127,325	114	189,937	29	22,331	11,346	13	30,071	1,772,001
Kentucky	202	1,880,310	1,500	87,843	1,969,653	140	1,636,711	48	219,057	42	68,535	66	32,707	12,643	8	19,711	1,901,521
Louisiana	183	1,595,450	500	80,488	1,676,438	146	1,488,860	29	91,548	19	63,545	36	15,552	16,933	17	64,268	1,660,218
Maine	217	1,139,440	3,500	23,219	1,166,159	41	466,135	120	275,573	78	378,404	37	37,100	8,947	47	152,950	1,305,890
Maryland	70	783,700	0	26,518	810,218	53	650,515	9	26,260	27	123,171	8	3,300	6,972	3	15,300	799,000

Massachusetts	4	20,900	0	0	20,900	1	11,109	12	3,840	1	5,100	1	610	441	1	2,705	23,605
Michigan	210	2,000,023	2,200	84,096	2,086,319	94	1,237,042	73	389,352	114	420,378	42	23,247	16,300	21	98,279	2,100,502
Minnesota	227	1,575,415	500	82,654	1,658,569	97	1,077,771	58	142,402	138	394,369	42	33,064	10,963	8	24,549	1,600,564
Mississippi	799	5,747,240	14,140	245,558	6,006,948	580	5,173,593	191	547,169	50	112,654	226	139,377	34,155	53	152,287	5,913,567
Missouri	559	4,347,200	1,820	143,605	4,492,625	373	3,721,400	126	331,323	156	302,112	140	122,089	15,701	48	136,012	4,485,032
Montana	145	1,268,490	0	37,862	1,306,352	80	1,020,797	47	177,318	36	65,485	27	33,904	8,848	11	19,450	1,267,940
Nebraska	79	684,860	500	44,534	729,894	41	542,453	33	113,608	30	57,795	14	13,032	3,006	1	14,758	700,118
Nevada	11	114,175	0	100	114,275	7	84,671	2	10,500	3	16,300	1	1,450	1,354	0	46	114,221
New Hampshire	25	183,815	0	1,065	184,880	12	145,100	8	5,500	18	30,400	5	3,405	475	1	1,200	185,015
New Jersey	106	980,065	0	66,634	1,046,699	70	859,353	31	108,278	18	62,005	17	9,580	7,483	5	8,679	988,744
New Mexico	93	747,240	0	34,072	781,312	57	597,258	35	137,740	12	12,234	29	20,680	13,400	3	7,142	754,382
New York	106	884,045	500	52,913	937,458	35	424,807	23	54,696	97	432,014	18	14,098	11,843	7	41,754	926,301
North Carolina	604	5,933,155	500	301,432	6,235,087	525	5,700,644	60	276,755	62	129,660	219	81,595	46,432	18	53,023	5,986,578
North Dakota	228	2,235,770	0	63,105	2,298,875	130	1,680,308	65	257,378	129	263,178	70	71,265	26,745	16	61,768	2,297,538
Ohio	106	967,810	500	51,795	1,020,105	62	770,937	26	66,989	58	165,969	16	12,414	3,796	10	61,587	1,029,897
Oklahoma	350	3,089,935	1,990	176,538	3,268,463	258	2,820,170	70	237,316	96	146,843	94	50,435	13,699	17	64,692	3,156,617
Oregon	95	856,550	0	40,664	897,214	56	631,540	26	124,462	35	118,419	22	17,033	5,760	7	14,222	870,772
Pennsylvania	127	1,040,570	500	25,958	1,067,028	44	545,736	45	115,206	112	385,872	16	11,055	9,159	21	134,461	1,175,531
Rhode Island	1	1,500	0	0	1,500	0	0	0	0	1	1,500	0	0	0	0	5,739	7,239
South Carolina	362	3,464,390	0	244,075	3,708,465	307	3,405,013	47	206,416	23	34,665	100	33,257	29,104	18	44,236	3,508,526
South Dakota	184	1,483,770	0	104,812	1,588,582	84	1,143,821	43	113,420	102	257,820	48	61,912	11,609	18	74,452	1,558,222
Tennessee	614	5,583,345	0	195,816	5,779,161	533	5,284,869	59	209,919	58	117,727	250	149,607	20,639	37	99,739	5,683,084
Texas	484	4,720,010	500	238,349	4,958,859	401	4,395,585	55	210,403	77	242,802	106	91,255	18,813	12	44,889	4,755,399
Utah	164	1,970,550	0	37,751	2,008,301	118	1,671,318	29	172,792	38	149,100	10	8,480	6,611	9	35,248	2,005,798
Vermont	6	41,880	0	365	42,245	1	14,490	4	4,000	8	21,640	2	1,800	315	0	0	41,880
Virginia	181	1,738,400	0	77,988	1,816,388	138	1,515,257	35	155,275	39	74,807	93	53,364	17,685	5	10,900	1,749,300
Washington	161	1,508,190	500	67,967	1,576,657	84	1,042,421	45	218,174	86	261,382	38	41,635	13,045	26	110,933	1,619,623
West Virginia	164	1,489,360	500	84,531	1,574,391	106	1,253,105	48	202,791	29	85,075	58	26,169	7,351	3	8,065	1,497,925
Wisconsin	278	1,978,010	500	94,823	2,073,333	61	736,054	90	297,043	326	995,669	31	25,022	19,545	22	88,992	2,057,502
Wyoming	68	634,070	500	28,336	662,906	42	563,871	22	73,948	11	14,118	8	6,565	4,404	1	3,087	637,657
Puerto Rico	283	1,289,460	25,700	14,875	1,330,035	145	995,470	131	261,975	20	57,700	29	13,365	1,525	3	16,852	1,332,012
Virgin Islands	23	280,000	500	6,500	287,000	21	285,000	2	2,000	0	0	0	0	0	0	0	286,500

1/ Includes two loans in the amount of $1,750 for land development as follows: Arkansas, one for $750 and Vermont, one for $1,000.
2/ "Loan costs" represent the amounts advanced to borrowers for such purposes as the payment of taxes, insurance premiums, etc. Loan costs appear opposite 3 states reporting no number of loans.

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Table I - Rural Housing Loans: Funds Obligated and Furnished by Borrowers, and Use of Funds, 1963 Fiscal Year 1/

State and territory	Funds to new borrowers and grant-only cases																Number of subsequent loans and grants	Amount of subsequent loans, grants and loan costs 2/	Total amount of loans and grants
	Number	Amount of funds				Use of funds										Amount of fees			
		Loans	Grants	Furnished by borrower	Total	Dwellings				Other buildings (new and repair)		Water systems		Land purchase and development					
						New		Repair											
						Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
U. S. Total:																			
Percent distribution.	-	-	-	-	100.0%	-	90.2%	-	5.5%	-	2.1%	-	1.5%	-	*	0.7%	-	-	-
Amount	20,416	$184,265,722	$1,024,785	$10,557,365	$195,847,872	15,876	$176,586,376	3,815	$10,832,951	1,693	$4,084,664	5,416	$3,008,645	14	$34,650	$1,300,586	708	$2,110,874	$187,401,381
Alabama	1,357	12,202,265	62,335	780,678	13,045,278	1,180	12,219,525	156	367,809	52	132,030	528	213,606	0	0	112,308	26	88,253	12,352,853
Alaska	55	883,545	0	10,865	894,410	37	698,612	15	150,266	1	3,000	28	34,195	0	0	8,337	7	20,050	903,595
Arizona	79	665,000	20,332	12,733	728,065	52	665,535	27	50,622	0	0	6	6,977	0	0	4,931	0	54	715,386
Arkansas	1,393	7,164,600	340,155	506,233	8,010,988	769	6,944,534	513	642,843	41	105,426	536	262,507	0	0	55,678	42	81,384	7,586,139
California	137	1,711,030	0	78,840	1,789,870	117	1,475,918	15	81,009	14	181,910	35	33,841	0	0	17,192	7	40,130	1,751,160
Colorado	205	2,134,930	2,970	87,224	2,225,124	145	1,882,020	55	196,387	36	78,459	48	37,201	1	10,980	20,077	23	80,810	2,218,710
Connecticut	11	132,380	0	7,615	139,995	9	130,964	2	2,200	0	0	9	5,910	0	0	921	3	2,340	134,720
Delaware	18	208,555	0	4,616	213,171	18	211,271	0	0	0	0	0	0	0	0	1,900	0	0	208,555
Florida	582	5,681,188	23,315	357,056	6,061,559	504	5,689,450	74	250,868	14	43,945	116	52,289	0	0	25,007	15	59,410	5,763,913
Georgia	1,242	11,962,425	24,105	620,875	12,607,405	1,106	11,831,803	127	441,500	20	69,500	262	152,026	0	0	112,576	34	78,495	12,065,025
Hawaii	104	1,194,200	0	28,686	1,222,886	95	1,160,684	7	32,897	8	21,672	2	495	0	0	7,138	5	5,500	1,199,700
Idaho	195	2,294,805	3,500	89,848	2,388,153	143	1,988,761	46	305,964	21	38,040	51	38,315	0	0	17,073	8	40,938	2,339,243
Illinois	216	2,374,270	0	84,329	2,458,599	193	2,334,513	19	71,453	15	30,067	31	15,557	0	0	6,909	9	31,845	2,406,215
Indiana	188	2,295,039	0	97,070	2,392,109	181	2,357,315	5	15,168	7	4,831	18	9,050	0	0	5,745	3	10,275	2,305,314
Iowa	334	3,716,180	0	262,911	3,979,091	279	3,688,952	40	183,663	43	62,198	28	19,818	0	0	24,460	8	29,335	3,745,515
Kansas	322	2,881,980	7,125	99,792	2,988,897	223	2,651,040	71	208,344	84	82,451	47	31,353	1	420	15,289	15	41,525	2,930,630
Kentucky	547	5,652,110	16,300	326,939	5,995,349	468	5,513,784	69	267,921	35	46,485	221	125,220	0	0	41,939	15	48,836	5,717,246
Louisiana	477	4,379,120	1,000	273,704	4,653,824	408	4,345,589	64	220,757	19	14,600	59	27,876	0	0	45,002	8	24,313	4,404,433
Maine	345	1,841,950	23,420	37,789	1,903,159	110	1,174,650	196	422,880	58	229,624	64	59,169	1	3,650	13,186	48	113,193	1,978,563
Maryland	137	1,589,550	0	95,213	1,685,163	132	1,637,620	3	17,810	1	9,000	6	4,937	0	0	15,796	1	9,300	1,599,250

Massachusetts	18	110,000	0	2,336	112,336	4	44,627	3	10,423	10	53,316	2	2,900	0	0	1,070	1	3,627	113,627
Michigan	295	3,085,890	14,760	165,528	3,266,178	222	2,852,371	62	248,383	28	105,954	85	39,222	0	0	20,248	15	90,685	3,191,335
Minnesota	482	4,089,110	10,430	236,572	4,336,112	310	3,671,045	130	394,154	119	201,410	55	42,804	0	0	26,699	18	38,184	4,137,724
Mississippi	1,604	12,828,021	94,930	476,153	13,399,104	1,282	12,247,001	314	832,498	19	14,335	422	229,156	0	0	76,114	51	111,313	13,034,264
Missouri	946	7,873,035	97,005	401,421	8,371,461	704	7,764,725	218	350,565	40	55,041	198	180,978	1	180	19,972	40	60,797	8,030,837
Montana	143	1,369,650	1,000	74,207	1,444,857	97	1,237,047	41	157,043	7	12,924	28	26,934	0	0	10,909	7	12,516	1,383,166
Nebraska	192	1,718,340	1,380	235,765	1,955,485	133	1,701,132	49	172,035	29	55,995	27	15,272	0	0	10,051	6	22,109	1,741,829
Nevada	17	184,750	0	3,457	188,207	12	150,237	5	34,779	0	0	2	1,145	0	0	2,046	0	45	184,795
New Hampshire	50	424,350	1,000	8,300	433,650	37	402,310	8	8,900	10	13,875	9	6,185	0	0	2,380	1	1,000	426,350
New Jersey	151	1,506,110	0	139,941	1,646,051	120	1,470,099	24	92,586	11	61,890	19	12,722	0	0	8,754	8	13,152	1,519,262
New Mexico	138	1,196,960	2,260	59,431	1,258,651	93	1,087,809	40	97,133	12	22,732	16	42,225	0	0	8,752	7	15,922	1,215,142
New York	156	1,592,950	3,400	66,389	1,662,739	106	1,363,033	19	69,332	42	187,491	31	23,708	0	0	19,175	2	24,134	1,520,484
North Carolina	1,650	16,045,595	52,905	1,056,942	17,155,442	1,467	16,198,043	179	530,418	32	40,453	705	230,310	1	6,590	149,628	22	58,921	16,157,421
North Dakota	351	3,784,510	3,000	168,032	3,955,542	252	3,389,234	76	321,842	81	138,810	77	68,442	0	0	37,214	12	39,395	3,826,906
Ohio	146	1,474,240	1,000	150,714	1,625,954	113	1,461,693	20	63,883	34	87,158	16	6,925	0	0	6,295	11	52,150	1,527,390
Oklahoma	563	5,344,340	13,015	318,919	5,676,274	483	5,294,360	72	229,800	40	63,219	147	68,343	0	0	20,552	12	37,345	5,394,700
Oregon	98	1,017,960	0	36,391	1,054,351	72	860,060	15	61,460	39	116,174	11	10,005	0	0	6,652	14	61,955	1,079,915
Pennsylvania	149	1,410,725	7,000	74,819	1,492,544	95	1,251,376	42	158,199	25	56,313	28	15,117	0	0	11,239	24	79,258	1,496,983
Rhode Island	1	2,600	0	0	2,600	0	0	1	2,600	0	0	0	0	0	0	100	0	0	2,600
South Carolina	699	7,002,320	950	688,555	7,691,825	632	7,200,094	64	332,441	12	4,970	229	84,047	0	0	70,273	19	53,856	7,057,126
South Dakota	297	2,236,640	5,720	219,331	2,461,691	136	1,747,668	85	267,522	142	362,200	61	66,213	0	0	18,088	25	73,302	2,315,662
Tennessee	1,238	11,578,085	1,000	655,659	12,234,744	1,165	11,657,444	59	182,794	40	86,903	440	251,276	0	0	56,327	29	70,670	11,549,755
Texas	898	8,953,370	20,405	473,614	9,447,389	784	8,782,732	110	385,891	57	91,828	185	147,589	0	0	39,349	15	52,348	9,026,123
Utah	250	3,143,830	0	172,415	3,316,245	204	3,000,789	44	245,642	21	52,850	6	6,460	0	0	10,504	9	38,587	3,182,417
Vermont	11	72,050	0	4,210	76,260	4	36,610	4	4,315	13	34,345	1	300	0	0	690	3	15,200	87,250
Virginia	344	3,423,530	0	238,707	3,662,237	311	3,393,102	32	134,671	10	7,850	206	90,429	0	0	36,185	7	8,931	3,432,461
Washington	175	1,914,299	0	62,921	1,977,220	121	1,614,372	41	223,129	32	82,352	32	41,423	1	1,630	14,314	16	87,867	2,002,166
West Virginia	312	3,074,550	3,168	194,875	3,272,593	242	2,925,166	68	269,884	7	5,941	111	69,471	0	0	22,531	7	13,244	3,090,962
Wisconsin	321	2,786,400	1,000	207,565	2,994,965	147	1,826,682	76	297,104	275	803,252	57	43,010	0	0	24,917	35	122,314	2,909,714
Wyoming	99	1,077,800	2,500	32,795	1,113,095	71	979,381	25	85,321	6	28,345	13	10,892	1	900	8,253	6	10,440	1,090,740
Puerto Rico	645	2,520,690	162,400	55,160	2,738,250	255	1,967,594	385	637,640	31	83,500	54	31,100	7	10,300	8,116	9	35,520	2,718,610
Virgin Islands	33	427,500	0	13,225	440,725	33	405,000	0	0	0	0	18	33,000	0	0	1,725	0	0	427,500

1/ In addition, 8 Insured Labor Housing loans for $221,450 and 2 Insured Rental Housing loans for $117,000 were made.

2/ "Loan costs" represent the amounts advanced to borrowers for such purposes as the payment of taxes, insurance premiums, etc. Loan costs appear opposite 2 states reporting no number of loans. This column also includes grants for $4,870 to 14 individuals included in column 17.

* Less than 0.05 percent.

Mr. MICHEL. In other words, this is a regular function for the Farmers Home Administration. Wouldn't it appear yearly in the justification?

Mr. GRANT. Yes, sir; it does.

Mr. MICHEL. Then I come back again that it is something that would have been done regardless of whether or not we had any overlapping of an office of rural areas development.

IOWA HIGHWAY CONSTRUCTION

I understand that over in Iowa recently the Secretary made a big to-do with a special release about a project that in the name of rural areas development would construct a highway in Appanoose County, with some recreational facilities attendant with it. As a matter of fact, the highway is already built and the State has asked for enabling legislation to acquire the property to develop it on its own.

But in the name of rural areas development, the general implication is that this would never have come about if it hadn't been for this great program of rural areas development. And I submit that all you are doing is collecting a lot of projects that normally were going to be done anyway as a means of justification for the office.

TV SERIES

Now I see further in your release, you have: "RAD stars in weekly TV series. January 21 was the premier date for a weekly series of 10-minute television shows on RAD accomplishments in Nebraska. The program was telecast over KOLN–TV a commercial station at Lincoln, which serves two-thirds of the State.

"The first show featured a film clip on Secretary Freeman's trip to Grand Island, Nebr., last fall, and an interview with a member of the Custer County RAD Committee and a dairyman who is on a newly organized milk pickup route which was developed by the RAD committee."

Now my first question is, since this is a weekly series of 10-minute televison shows, who paid for them, how much and under what office do we find this?

Mr. MACE. I do not know, sir; I will have to supply that for the record.

Mr. MICHEL. And when you supply it for the record, I would like to know what office initiated these series of 10-minute televison programs and under whose budget the financing for developing the shows, whether or not they were shown as a public service feature by that station, or whether it was paid time—and if so, how much.

(The information requested follows:)

The televison series in Nebraska, which was reported in the February issue of the USDA RAD newsletter, is planned by Nebraska Extension personnel. The shows feature interviews with local people on various types of community development projects. Nebraska Extension prepares the rough script for the show, locates the people who are to participate, and provides means by which they get to the TV station. The TV farm director for station KOLM–TV, Lincoln, is responsible for shooting the film needed in connection with the shows and for the production of the show. No payment is made to the station by the Extension Service since this is a public service feature by the station.

VERMONT COMMUNITY CENTER

Mr. MICHEL. I think in partial answer to a question of Mr. Horan, who is trying to have you submit for the record some specific projects and areas of accomplishment, you cited the Vermont, Georgia, and New Mexico project areas. I think you mentioned that in Vermont, for example, one of the projects was a community center.

How much Federal money went into this community center as against local funds?

Mr. MACE. I do not have those figures here, sir, but I can supply them.

Mr. MICHEL. Again, for the record, what was to be accomplished by the construction of that community center?

Mr. MACE. It was to sell products made by elderly people.

Mr. MICHEL. Has that center been completed yet?

Mr. MACE. I do not know, sir.

Mr. MICHEL. Well, if it is completed, I would like to know what the experience table shows as to what business or good is being generated by that community center having been constructed and what benefits have accrued to those elderly people participating.

(The information requested follows:)

The Vermont community center has not yet been constructed and therefore no financing has been involved.

As originally conceived the center was to have served as a source of production and outlet for various arts and crafts supplied primarily by elderly people in the local area.

As an example, an elderly couple now in the area supplies six gift shops with material made from old magazines that can be used in fireplaces to produce decorative flames. It is felt within the State that enterprises of this nature could be expanded to provide elderly people with a supplemental source of income. At the present time efforts are being made with the help of State agencies to establish the center on a State or regional basis. If successful, it is anticipated that assistance will be sought under the manpower development and training program and for the training of qualified residents in the production of certain arts and crafts.

MOTEL FINANCING

Mr. MICHEL. Now so far as the motel is concerned, how many motels in private industry are there in the community in which this Office is competing? Could we have that for the record?

Mr. MACE. Yes.

Mr. MICHEL. Could you tell me for sure what agency of the Department of Agriculture financed the construction of this motel?

Mr. MACE. I will be glad to, sir.

(The information requested follows:)

This project did not involve the construction of a new motel, but rather the modernization of an existing structure and expansion of related restaurant facilities to serve better the existing market. The total cost is estimated at $40,000, with $10,000 supplied by the owner and $10,000 by a local bank. It is anticipated that the balance will be obtained from the Small Business Administration, if needed.

Mr. MICHEL. Offhand, where would that come from?

Mr. MACE. Probably private financing.

Mr. MICHEL. If it were private financing it would seem to me that it would have been done without the Federal Government; would it not?

Mr. MACE. Not necessarily, sir. The idea of the rural areas development program is to have the local people that are in need of some community improvement and development to meet together and work together and search for ways in which new things can be done. We have found innumerable instances where such groups, sitting down together, find out how they can solve their problems, and come up with suggestions that lead to the establishment of such things as these projects that I have listed.

Mr. MICHEL. Are you saying that the local people who on their own wouldn't have the good sense to determine whether or not a construction of a motel in an area would be a good going proposition, but the Federal Government came in with a number of people from a variety of agencies who said, "We think you ought to build yourself a motel"? That is about what the testimony sounds like, and if this impression is erroneous, I would be glad to have an explanation for the record.

Mr. MACE. I am not saying they would not have done this without the Rural Areas Development or the Rural Areas Development Committee. I am saying that there have been effective economic development projects of considerable magnitude that have come out of the joint thinking of groups of local leaders meeting together, not necessarily with any Federal representation present.

VERMONT WOODWORKING FACTORY

Mr. MICHEL. I think you made mention of a woodworking factory in the Vermont project.

Mr. MACE. A project leading to improvement of a furniture-manufacturing plant and the expansion of a woodworking plant.

Mr. MICHEL. In other words, there apparently is a furniture-making installation in the community?

Mr. MACE. Yes.

Mr. MICHEL. What you are attempting to do up there is to broaden the scope of the activities of that concern?

Mr. MACE. Expand the plant according to the way it is worded here, and result in new employment, new markets for the plant.

DATA ON FIELD OPERATIONS

Mr. MICHEL. I think Mr. Horan asked for some total figures with respect to some of these projects.

As long as you have the figures itemized by those three States we are talking about, Vermont, Georgia, and New Mexico, I would like to have the amount of the Federal contribution, regardless of what agency it might be, what agency it is, and the number of additional jobs that it will create, over and above what they currently have in those various communities.

I would also like to know whether or not these concerns are in competition with any others that are solely financed through private enterprise in those communities.

(The information requested follows:)

The 26 projects reported by the Vermont, Georgia, and New Mexico offices as pending, in process, partially completed or completed are listed in the following tables. When construction has not been completed or the projects are pending, the estimated cost has been shown along with the probable sources of financing and the number of jobs expected to be created. There is no evidence of local concern about any competition with existing enterprises of a similar nature which may be generated by these projects.

Vermont office

Type of project	Total cost	Source of financing	New jobs created
Foundry	$60,000	ARA $31,000; Private 29,000	38
Building and supply	10,000	SBA 10,000; Bank -------	4
Plastics manufacturing	135,000	ARA 88,075; Private 46,925	[1] 48
Motel modernization and restaurant expansion	40,000	SBA 20,000; Private 20,000	
Truck trailer manufacturing	100,000	----do---- 100,000	[2] 15
Rock quarry	40,000	SBA 40,000	7
Hockey equipment manufacturing	100,000	Private 100,000	21
Year-round recreational facilities (fishing, camping, riding, skiing, etc.).	35,000	Bank 35,000	6
Recreational facilities (golf, swimming, cottages, etc.)	25,000	Private 25,000	7
Recreational facilities (golf, skiing, etc.)	350,000	----do---- 350,000	6
Recreational facilities (golf)	25,000	----do---- 25,000	5
Emergency water supply	131,000	OEP 131,000	
Park facilities	75,000	Private 75,000	
Community water system	16,000	State 6,000; Private 10,000	
Do	650,000	CFA 7,000; Private 643,000	
Sewage system	238,000	HEW 75,000; State 25,000; Private 138,000	
Do	500,000	CFA 3,000; Private 497,000	
Community water system	312,000	CFA 300,000; Private 12,000	

[1] 33 jobs saved, 15 to be created.
[2] Old plant destroyed, 15 jobs saved.

Georgia office

Type of project	Total cost	Sources of financing	New jobs created	Status
Civic and recreational center	$216,000	CFA $185,000; Private 16,000	6	13 areas donated, $16,000 pledged locally, endorsed by chamber of commerce and mayor.
Expansion of nursing home	70,000	HHFA 60,000; Private 10,000	10	Completion expected this spring.
Recreational area (fishing, hunting, swimming, etc.).	4,500	FHA 4,500	5	Underway, 50 acres, access to 250 more.
Pecan and muscadine processing and marketing.	30,000	Local co-op 30,000	12	Pending.
Expansion of casket manufacturing plant.	300,000	SBA 150,000; Stock shares 150,000	20–25	Stock being sold locally.

New Mexico Office

Type of project	Total cost	Source of financing	New jobs created	Status
Recreational facilities	$4,500,000	ARA $2,225,000; Private 2,225,000	450–500	Pending.
Mental health facilities	1,125,000	HEW 562,500; Private 562,500	200–500	100 acres of land donated, action pending.
Paint manufacturing plant	45,000	ARA 25,000; Private 20,000	16–25	Action in process.
Handmade furniture plant	13,000	ARA 10,000; Private 3,000	15–20	In process.
Expansion of mining operation	20,000,000	Private 20,000,000	220–400	In partial operation.

MENTAL HEALTH FACILITY IN NEW MEXICO

Mr. MICHEL. I am somewhat intrigued with this project of a mental health facility in New Mexico. Can you supply any details on that project? Is that one that would never have come about if it hadn't been for Rural Areas Development? If so, what was the incentive under this program to build it where there would have been none without the program?

Mr. MACE. I will be glad to supply the details of the project for the record.

(The information requested follows:)

The mental health facility referred to is envisioned as a combination hospital, nursery, and playground for handicapped children to be located in the vicinity of Taos, N. Mex. Such a facility was identified by the local rural areas development committee as one of the community's needs. As in many other instances, adequate sources of financing were not available to carry the proposed project forward. In this instance, the rural areas development committee requested assistance from the USDA Technical Action Panel in locating sources of help. Since that time 100 acres of land valued at $1,000 per acre has been donated to the rural areas development committee for use in the further development of this project if the necessary financing can be obtained. It is estimated that about $1 million will be required and it is hoped that a portion of the funds required can be obtained through the Department of Health, Education, and Welfare.

At the outset the facility would provide for 75 children. It is estimated that from 200 to 500 jobs, both direct and indirect, ultimately would be generated by the project.

AGENCY RESPONSIBILITIES IN RURAL AREAS DEVELOPMENT

Mr. MICHEL. What other departmental programs are there which are designed to aid people in rural areas through financial assistance? Would you supply these in very simple outline form for the record?

Mr. MACE. Can I ask for clarification. Do you mean that make loans to rural areas?

Mr. MICHEL. I would like to know what assistance, whether it comes in advice, loans, cash grants, barter, or whatever it might be.

Mr. MACE. I would prefer to put that in the record, if I might.

Mr. MICHEL. Very good.

(The information requested follows:)

BRIEF SUMMARY OF ACTIVITIES OF THE USDA AGENCIES WHICH CONTRIBUTE TO THE RURAL AREAS DEVELOPMENT PROGRAM

AGRICULTURAL MARKETING SERVICE

Assists in planning markets and related marketing facilities.

Assists in improving packaging, shipping containers, and transportation of agricultural commodities.

Gives assistance in improving the marketing and distribution of all farm commodities.

Supplies market news and related information.

Administers school lunch, milk, food distribution, and other supporting programs designed to expand consumption and improve market outlets for agricultural commodities.

AGRICULTURAL RESEARCH SERVICE

Provides technical advice and counsel on farm production, utilization, and home economics.

Provides advice and counsel on the technical and industrial feasibility of farm product processing plants.

Conducts surveys in cooperation with State agricultural experiment stations on farm family living, household needs, food consumption, and diets.

Conducts basic and applied research helpful to rural area development programs.

Provides information and results of research.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Improves and stabilizes farm income through price support, acreage allotment, marketing quota, and stabilization payment programs.

Assists farmers in (1) adjusting production (or marketings) to need, (2) the orderly marketing of farm products, (3) making needed land use adjustments, (4) conservation, development, and better use of soil, water, forest, and wildlife resources, and (5) construction of needed storage facilities for agricultural commodities, and (6) cropland conversion.

Assists farmers in the maintenance of their foundation herds and other eligible livestock in disaster areas.

Promotes programs to utilize the capabilities of rural people in the support of economic development.

Provides information to help determine areas where a particular type of new industry is needed for a specific service to agriculture.

COOPERATIVE STATE EXPERIMENT STATION SERVICE

Conducts economic and other studies basic to determining size and nature of economic farm operating units, and credit and managerial talent necessary to farm enlargement.

Carries forward research to show nature and extent of interdependence of farm and nonfarm economics, profitable combinations of farm and off-farm employment, and approaches to an integrated development of human and natural resources in rural areas.

Analyzes population composition, migration and change, the nature of rural family life and social organization, levels and standards of living, diffusion and adoption of improved practices, individual and family goals and values, problems of community development, and other social-economic factors affecting abilities and opportunities for economic adjustment and growth.

ECONOMIC RESEARCH SERVICE

Coordinates basic economic and family research for problem understanding and programing of rural development.

Conducts economic and marketing research needed in developing sound local development projects.

Provides technical research, usually in cooperation with State experiment stations, for the formulation of comprehensive area programs for economic development.

Analyzes population, income, and resource-use data for rural areas to determine the extent of unemployment and underemployment and the characteristics and incomes of underemployed rural people; applies such information to the identification and designation of redevelopment areas.

FARMER COOPERATIVE SERVICE

Provides information on the role of cooperatives in rural development programs.

Provides technical advice and counsel on organization, management, and operating problems of farmer cooperatives.

Analyzes factors contributing to the successful operation of cooperatives in rural development areas.

Evaluates the potentialities of farmer cooperatives in rural development.

Assists in plant location studies for cooperatives.

Works with other agencies on cooperative aspects of their programs.

FARMERS HOME ADMINISTRATION

Gives technical assistance, including farm management, to farm families.

Makes loans to farm families for the purchase, enlargement, and development of farms, including water resources; also, loans for operating expenses and the refinancing of debts; and also for recreational purposes.

Assists in formulation, preparation, and implementation of community development plans.

Makes loans to farmers and residents of rural communities for construction and repair of needed homes and essential farm buildings.

Makes loans to associations, including public and quasi-public agencies, to provide farmers and rural residents with water for irrigation and domestic use; also loans for the drainage of farmland.

Makes loans for senior citizens housing and also domestic farm labor housing.

FEDERAL EXTENSION SERVICE

Provides special assistance in organizing local leadership and supplies educational assistance in all phases of rural areas development.

Provides technical leadership in inventorying area resources.

Assists in analyzing and interpreting social and economic relationships and in projecting area economic growth.

Assists local groups in planning and launching projects to alleviate underemployment.

Provides educational and training assistance.

Provides technical counseling and assistance in maximizing the benefits to be obtained from other programs.

Arranges for resource specialists of the land-grant colleges to contribute to local development projects.

Advises rural youth on careers and job opportunities both in and outside agriculture.

FOREST SERVICE

Provides technical advice and assistance in establishing forest enterprises and expanding the recreational use of forest lands.

Provides forest utilization and marketing specialists.

Intensifies forest surveys for use of development areas.

Cooperates with State foresters in expanding State development programs.

Contributes to development activities in rural areas.

RURAL ELECTRIFICATION ADMINISTRATION

Gives technical guidance and assistance to borrowers.

Assists borrowers to survey industrial potential.

Makes loans for providing power and telephone facilities for industrial, commercial, and residential development.

Offers guidance in locating and expanding markets.

Makes loans to electric borrowers for financing electrical equipment, including machinery, for agricultural, commercial, and industrial enterprises.

SOIL CONSERVATION SERVICE

Gives technical assistance for economic development of soil and water resources for agricultural and nonagricultural purposes.

Provides soil surveys, land inventories, and land capability interpretations for agricultural development, site locations for project construction, special land uses, and public facilities.

Provides financial and technical assistance for developing water resources in small watersheds for both agricultural and nonagricultural uses and for flood prevention. Also recreation and resource conservation and development.

With other Department agencies, assists farmers with farm unit reorganization and farm income improvement through replanning farm units.

Contributes financial and technical assistance to long-range conservation plans on farms and ranches in the Great Plains area.

STATISTICAL REPORTING SERVICE

Provides basic information on agricultural production, prices, farm, labor, and other data to facilitate analysis and appraisal of the total agricultural potential.

Makes interview surveys to obtain data on basic human and physical resources.

Gives technical assistance in evaluating local development programs.

Collects and analyzes data concerning attitudes of local people toward organized programs of economic development.

In addition to the above, the following services are available from the banks and associations supervised by the Farm Credit Administration, an independent U.S. agency outside the Department of Agriculture:

Complete credit services for qualified individual farmers and their cooperatives.

Ample supply of funds through the sale of bonds and debentures in the investment market.

Credit counseling assistance through directors and personnel of farm credit banks and associations familiar with local farming conditions.

Mr. MICHEL. I see, in a release from the Department of Agriculture, under date of January 21, 1964, under the rural areas development program, page 8, it says:

In short, rural areas development is the coordinated application under local leadership of all resources, land, water, forest, wildlife, minerals, skills, capital, scenery, location with respect to markets or population centers, or whatever else can be turned into development resources from whatever sources are available, local, private, or public, to the solution of rural economic problems.

What does all that mean?

TYPE OF ASSISTANCE GIVEN BY RURAL AREAS DEVELOPMENT

Mr. MACE. It means to me that the rural areas development program is that which attempts to supply to local leaders coming to conclusions as to what there is needed for economic development in their area—all of the services and technical assistance that we have available within the Department of Agriculture that is of use to them, to go with the services and technical assistance of other Government agencies, State agencies, local organizations, groups and individuals.

Mr. MICHEL. If I wrote a letter from a community out somewhere in the country asking about some help in this area, would it go to your office, or would it go to the Office of Information in the Department of Agriculture for reply?

If I was Joe Doakes out in Timbucktoo, Illinois, and I said, "Something ought to be done out here in our rural community; things are on the decline; the town is wasting away; what can we do about it?"—and I shoot it into the Department of Agriculture, does it go into the Office of General Public Information, or does it go to your office, or what would happen to an inquiry like that?

Mr. MACE. Many letters of that type do come to my office.

Mr. MICHEL. What do you do with them?

Mr. MACE. I write back saying that we certainly appreciate the interest that this individual has as to the economic health of his community and point out that it is through interest of economic improvement such as he has, and others in his community also have, that there is the possibility of getting something done.

Mr. MICHEL. And if I wrote that kind of letter back to a constituent asking something of me, I'd get a reply saying: "Enough of that hogwash; what are you really going to do for us?" So what do you tell him specifically we can do, other than that song and dance, we are sympathetic to your problem.

Now what happens?

Mr. MACE. Could I continue with my letter?

Mr. MICHEL. Right.

Mr. MACE. Then I would point out to him that there is a rural areas development program that was conceived to try to help others like him to find a way so that there can be more jobs, more income, so that

there can be more business on main street so the population decline in the rural areas can be reversed and point out to him that this rural area development approach provides that leaders of the community get together and decide what can be done. And then set about doing everything they can to get it done. That the Department of Agriculture, the other agencies of the Federal Government, and I am sure States agencies too, will be glad to join in helping in doing anything that needs to be done.

And then I would say that the Extension Service has the responsibility for organizing these rural area development committees and I would suggest that you make contact with your local county agent or your State director of extensions—or, if you prefer, you might wish to make contact with the State director of the Farmers Home Administration, or the local county supervisor, since those people in that agency are responsible for coordinating the Department of Agriculture service.

Mr. MICHEL. So now he takes your advice and goes to the Extension Service, or to one of these other agencies of Government that have already been created and have been in being for a number of years. We finance him and then whatever activity comes about because of that, we have already financed through other programs. Then it resolves itself down to one of your offices, which simply acts as an agent for the Department in handling correspondence and shuttling papers around, doesn't it? It seems to me you are shuffling it around from one department to another. That is, unless you take the ball and say, "Well, sir, you haven't given us much information in your letter; but we are going to see that someone is sent out there to evaluate the situation," or ask him to come back with more specifics as to what his problem is. I can't see that the office serves any function other than that of accepting letters of complaint or inquiries, and shuffling them off to some other department.

Mr. MURPHY. Might I comment on that, Mr. Michel? He might be a little bit——

Mr. MICHEL. I can't get anything more out of him than that.

Mr. MURPHY. It might be a little embarrassing for Dr. Mace to toot his own horn, as it were, as to how valuable his services and those of his office are in the Department.

I would like, if I might, to say something about how this looks to me from the standpoint of the Secretary's Office. And to start by saying something about the size and difficulty of the task and what our general purpose is.

And it is, I think, appropriate to note here that three-fourths of the people that live in rural areas are nonfarm people. Now, traditionally, the Department of Agriculture has been oriented especially toward farm people and their problems, and I think that is right. I am not complaining about it, I am just saying that it is true that there is a big shift in the population pattern in rural areas. And these three-fourths of the people who are nonfarm people have to a considerable extent gotten lost as between the farm-oriented programs of the Department of Agriculture and urban-oriented programs of other agencies.

This seems to us to be a big gap. It seems to us that there is a critical need for more job opportunities in rural areas for nonfarm people

and frankly, it is a new problem and one that, so far as I am concerned, I have never known exactly how to get at.

We felt very definitely that the Department of Agriculture had some capabalities here that are beyond those that any other department or agency has, so far as any Federal functions might be concerned.

We also felt that we had enough operating agencies in the country that it would not be appropriate or right to create any more big operating agencies of the Department of Agriculture that go down to the county level.

So the problem, as we saw it, was to try to coordinate and to some extent, reorient the activities of the major agencies that we have responsibility for that now have offices, some of them, in almost every county: Farmers Home Administration, the ASC, the Extension Service, and some of the others—such as the Forest Service—that are widespread but still not quite so uniform.

This was a need that was beyond the capabilities of the machinery that we had set up in the Secretary's Office as we saw it to coordinate these functions. That was the reason that Dr. Mace's office was set up.

They have, I think, a committee which has not been mentioned here that I believe meets very regularly, made up of representatives of the agencies in the Department that mave major responsibilities in this field to coordinate the work there. And while it may not sound very consequential, actually I think to coordinate the paperwork of these agencies directed toward this particular thing is not only a big job, but a very important one.

It is, I think, one of the hardships of a coordinator that he has a very difficult time expressing in concrete terms the results of his work. My own job is, to a considerable extent, a coordinating job, and if anyone asked me what I had done in a given day or week, I would be badly embarrassed. I would have trouble remembering anything I had done that amounted to anything for the past week, most likely, if you would ask me without giving me some little time to prepare.

USE OF THE EXTENSION SERVICE IN THE POVERTY PROGRAM

Mr. MICHEL. Mr. Murphy, your comments here open up one other subject area in which I wanted to ask several questions and probably of you, more so than Dr. Mace. That is, in this proposal of the Administration where they will get out with Volunteers of America, apparently new people and social workers, et cetera.

Has the Department been asked how the Extension Service might be utilized to broaden the scope of its activities as against establishing a brandnew group of social workers that would go out into these cloudy areas? One can't tell for sure whether they're urban or rural.

Mr. MURPHY. You are talking about the new antipoverty program?

Mr. MICHEL. Right. Has the Department been asked whether or not this would be feasible? I might say that there are those of us who know of the good work being done by the Extension Service in close cooperation with the universities, but I am sure, in many areas of the country they have found themselves, particularly in the area of homemaking, et cetera, bucking up against urban centers. As long as the family is right on the border, and while it is not a rural family, it is on the edge of the rural community, there may be a temptation

to let them qualify for the help and assistance, just as someone living across the block who may be classified in a rural area.

I am just throwing this out as a possibility and a suggestion as to whether this area of broadening the activities of the Extension Service has been talked about at all, in lieu of bringing in a brandnew batch of people who may be just high-powered social workers, as against people, whom I have a lot of confidence in, and who, I think, have their feet on the ground and wouldn't be running off in all kinds of directions.

Mr. MURPHY. Do you mean to broaden the activities of the Extension Service in rural areas, or are you including urban areas?

Mr. MICHEL. I am sure they are doing a pretty good job in the rural areas now. I have a hunch that around some of the areas of the country, you probably have some of the cities and urban centers. I know for a fact, they have made inquiry as to whether or not they can utilize the services of the Extension Service in combating some of the problems in "poverty stricken areas" of large urban centers. I just wondered what the reaction of the Department officially might be in this regard.

Mr. MURPHY. I will be glad to comment on that, Mr. Michel. I would like to say at the beginning that we are in a difficult situation for this reason to answer this kind of question.

The two men in the Department who have worked most intimtaely with other agencies and the Executive Office of the President in preparing the antipoverty recommendations are not available to us now.

One of them was the Assistant Secretary, John Baker, who, unfortunately, had a heart attack, and whom I am substituting for here. The other one was the Deputy Under Secretary, Mr. Sundquist, who went over to work temporarily in the Executive Office on the antipoverty program and his services were sufficiently valuable, that they haven't let him come back yet.

So my knowledge is not as specific as it should be, and because of Mr. Baker's illness, we are not able to provide you with anyone who has been through this day by day.

It is my impression that this new office is not contemplated as a large office or as an operating agency. It is expected that it will utilize the operating agency services of the existing departments of the Government, and in the case of rural areas, that it will utilize fully the services and agencies of the Department of Agriculture.

And this would certainly include, from our standpoint, the intention to use the Extension Service. This, I say, with some confidence as to rural areas.

I think that in the case of urban areas, the use of the Extension Service is a different question. There has been within the Extension Service, itself, and within the Department of Agriculture during the last couple of years, at least, a great deal of thought given to the role of extension in a changing society that is becoming more urban.

There are some of us that think it could perform an extremely valuable function in somewhat more urban areas than farming areas. This, to my knowledge, has not gone far enough to expect that they are likely to play any major part in urban areas in this new program.

Although the experience, my experience with the people working in this new poverty program, is such that they don't seem to have minds

that are closed to new ideas and if we could go in and make a case for this, I think we would very reasonably hope they would grab on, and that they would welcome the opportunity to make use of the Extension Service.

Mr. MICHEL. That is all.

Mr. WHITTEN. Dr. Mace, you have been requested to supply for the record specific information having to do with specific projects. I think that is well and good.

I think, in view of the other parts of the record, it might be well to designate whether it is under REA, FHA, or ERS. As I got the story, you don't have the power of approval or disapproval, and I think it should denote which agency does in case there are any further developments.

Mr. Addabbo?

IMPACT OF NEW INDUSTRY ON EXISTING INDUSTRIES

Mr. ADDABBO. Dr. Mace, in the coordinating committee, are there any rules or regulations? What precautions are being taken to make sure, in this rural development, that there will be no pirating of industry in other areas or transplanting of industries from other areas?

Mr. MACE. We have two policy papers that we use as informal guidelines. One of these is called "Rural Areas Development Policy Relating to Promotion of New Economic Activities." It reads this way:

> A basic objective of the rural areas development program is to promote greater employment opportunities and higher per capita incomes for people in rural areas. One way to achieve this objective is through development of new industrial and commercial enterprises, including outdoor recreation and tourism.
>
> In helping create greater economic opportunities for rural people, Department employees are encouraged to assist local groups with plans for organization and participate freely with such groups in their studies of resources and evaluations of alternative plans for economic development, including sources of financial assistance. The Department recognizes that counties, areas, and States will seek development of those industrial and commercial projects which will bring them maximum benefits.
>
> The Department recognizes that some new enterprises may bring economic benefits to one area but create economic problems for another area. Therefore, rural development committees and technical action panels should take cognizance of possible competitive effects new enterprises may have on existing businesses.
>
> It is the policy of the nationwide rural areas development program that in approving projects for technical assistance grants and other financial aid, consideration shall be given both to the contribution to local economic growth and the contribution to national economic growth.

We also have an informal policy that we use as a guideline relating to the impact of integrated type of industries on the family farm concept.

Mr. ADDABBO. Thank you very much, Dr. Mace. No further questions.

Mr. WHITTEN. I would point out in the record that this effort to prevent or help poverty-stricken areas applies many times to areas in my own section.

While there are many reasons for it, going back many years, what is usually termed the richest section of my State is usually designated as the poorest section by all of these services and censuses. And living there, I know the reason is that we have to watch the people there.

They have one source of income to buy basic commodities, and if you distribute other commodities, they work 1 day a week and maintain a certain standard. That is how much they are going to work. In many of those sections, you can't get them to work beyond what they are doing and that applies to a big segment of the population. Yet, it is one of the richest parts of the State.

We have had some troubles in several counties with regard to refusal locally to distribute commodities. This county I have in mind got credit for taking that attitude because of race.

The facts are that it was in the harvesting season and you couldn't hire anybody to work. When you get into this, I trust, Mr. Secretary, that we won't make it even harder to get somebody to try to do something for themselves. This is a major problem.

I don't mean to overlook the fact that with small farming or small agriculture it is hard to break even, much less make money. It is also easy to raise a good living, however, for those that might have the time to do that. That is the reason I wish to join with Mr. Michel and urge that the Extension Service, and Farmers Home Administration and those with experience and knowledge be used, and I think you will find that they don't pay any attention to race, creed or color or any other discriminating factor.

They will be glad to help any way in the world. One of the problems we have is getting people to go to work.

Mr. MURPHY. It is certainly our hope and expectation, Mr. Chairman, that these agencies will be fully used in this new program.

Mr. WHITTEN. Gentlemen, we wish to thank you for your appearance and I think the record is complete. I repeat again that, where these projects are actually approved by other agencies, they should be designated by the approving agency rather than have it look as though it might be the responsibility of the coordinating group.

WEDNESDAY, MARCH 18, 1964.

LANGUAGE CHANGES AND GENERAL PROVISIONS

WITNESS

CHARLES L. GRANT, DIRECTOR OF FINANCE AND BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. Mr. Grant, we turn now to the general provisions. We are glad to have the budget officer of the Department discuss these. Prior to your testimony, we would like pages 299 through 321 of volume 3 included in the record at this point.

(The material referred to follows:)

LANGUAGE CHANGES

AGRICULTURAL RESEARCH SERVICE

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets:

"SALARIES AND EXPENSES

"For expenses necessary to perform agricultural research relating to production, utilization, nutrition and consumer use, to control and eradicate

pests and plant and animal diseases, and to perform related inspection, quarantine and regulatory work, and meat inspection: * * * *Provided further*, That appropriations hereunder shall be available pursuant to title 5, United States Code, section 565a, for the construction, alteration, and repair of buildings and improvements, but unless otherwise provided, the cost of constructing any one building (except headhouses connecting greenhouses) shall not exceed $20,000, except for [three] *five* buildings to be constructed or improved at a cost not to exceed $45,000 each, and the cost of altering any one building during the fiscal year shall not exceed $7,500 or 7.5 per centum of the cost of the building, whichever is greater: * * *

"Research: For research and demonstrations on the production and utilization of agricultural products; home economics or nutrition and consumer use of agricultural and associated products; and related research and services; and for acquisition of land by donation, exchange, or purchase at a nominal cost of not to exceed $100, [$91,496,700: *Provided*, That, in addition, not to exceed $15,000,000 may be transferred from the Commodity Credit Corporation to this appropriation, in accordance with the Act of June 29, 1948 (5 U.S.C. 714b), for utilization research and development, cost of production research, and other related research designed to reduce surplus commodities held or to be held by the Commodity Credit Corporation, including $10,000,000 for the planning, construction, alteration and equipping of research facilities, which amount shall remain available until expended: *Provided further*, That hereafter the Administrator of the Agricultural Research Service may enter into agreements with and receive funds from any State, other political subdivision, organization, or individual for the purpose of conducting cooperative research projects with such cooperators] *$98,615,000, of which $2,394,3000 shall remain available until expended for construction, alteration, and improvement of facilities, without regard to limitations contained in the above preamble: Provided* [*further*], That the limitations contained herein shall not apply to replacement of buildings needed to carry out the Act of April 24, 1948 (21 U.S.C. 113(a)) [: *Provided further*, That the Secretary of Agriculture is authorized to acquire approximately two-tenths of an acre of land at Pasadena, California];".

The first change would increase from three to five the number of buildings which could be constructed or improved at an amount above the general limitation of $20,000. There is urgent need for six buildings which would range from $40,000 to $45,000 in price. Under the present limitation of three buildings, it would require at least 2 and possibly 3 years to provide for these current needs. These needs are without regard to any emergencies which may occur from loss of facilities by fires, windstorms, etc. These buildings are as follows:

1. Temporary building for research on control, prevention, detoxification, and treatment of toxicosis in livestock due to use of herbicidal compounds, herbicide-treated plants, poisonous plants, etc., Logan, Utah.

2. Building for research on pink bollworm lure, Brownsville, Tex.

3. Shops building for expanded research on sugarcane harvesting in Louisiana or Florida.

4. Temporary building for research on external parasites, Albuquerque, N. Mex.

5. Building for hazardous operations related to extraction of large amounts of materials from plants using flammable and toxic solvents for Utilization Research Laboratory, Pasadena, Calif. The 1964 appropriation authoized purchase of a site for this building adjacent to the present laboratory.

6. Building for bacteriological examinations in connection with enforcement of pesticide regulations, Beltsville, Md.

It is customary to reserve at least one construction authority until late in the fiscal year to provide for emergencies. If no emergencies arise in the current fiscal year, it would be possible to provide for the first three buildings listed, but the others would have to be held over until fiscal years 1965 and possibly 1966, which would delay much needed research.

Present facilities available to meet urgent research needs are very limited and are taxed to the utmost for the current program.

The second change would delete the language added to the 1964 appropriation act authorizing transfer of not to exceed $15 million from Commodity Credit Corporation, $10 million of which was for nonrecurring construction, surveys, etc., to remain available until expended. Plans are underway for the effective use of the funds provided by this authorization and the language is not needed in 1965.

The third change would delete the proviso which authorizes the Administrator of the Agricultural Research Service to enter into agreements with and receive funds from State or other public or private agencies, etc., for conducting research. This language is permanent legislation and therefore is not needed in 1965.

The fourth change would authorize construction, alteration, and improvement of certain facilities, without regard to related limitations contained in the preamble, the funds to remain available until expended. These items are as follows:

Construction of facilities for sugarbeet, pasture, and range research, Fort Collins, Colo	$1,000,000
The temporary facilities now housing this research are on the property of Colorado State University and are to be demolished to make way for new construction by the university. Those facilities which are federally owned are of temporary construction (Army surplus barracks or quonset huts) which are old and could not be moved satisfactorily. Permanent facilities are needed for this important research. It is anticipated that the university would provide a site for the facilities which include a laboratory-office building, headhouse-greenhouse with growth rooms, and storage building.	
Construction, alteration, and improvement of facilities at the Agricultural Research Center, Beltsville, Md	1,394,300
These facilities serve a wide variety of important basic and applied research and other activities of the Agricultural Research Service, as well as other agencies of the Department and Federal Government. There is critical need for modernization and improvement of facilities, many of which were provided 20 or more years ago. Construction and remodeling of facilities amount to $655,300. The remainder is for improvement of heating, electrical, water, and sewage systems ($520,000); improvement of roads and widening small bridge ($102,000); replacement of roof on 3 buildings, 1 new elevator, and air conditioning and renovating the plant industry auditorium which is used by many visitors and other groups ($117,000).	
Total, special limitation	2,394,300

Construction, alterations, and improvements are authorized by section 703 of the Department of Agriculture Organic Act of 1944 (5 U.S.C. 565a). It is necessary that funds for construction be available until expended since there are times when it is not possible to award a contract in the appropriation year. When sites are acquired by donation of State agencies, there is often delay in obtaining title to the land. Also, it may be necessary to readvertise bids because they are not within the amount available or the original bids may be unfavorable. There may also be delays in preparation of plans and specifications.

The fifth change would delete the word "further" which is not required because there would be no preceding proviso.

The sixth change would delete language authorizing the acquisition of land at Pasadena, Calif. It is anticipated that this land will be acquired by June 30, 1964, and that the proviso, therefore, would no longer be needed.

SALARIES AND EXPENSES (SPECIAL FOREIGN CURRENCY PROGRAM)

"For [purchase of] *payments in* foreign currencies which accrue under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704), for market development research authorized by section 104(a) and for agricultural and forestry research and other functions related thereto authorized by section 104(k) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704(a)(k)), to remain available until expended, [$1,250,000] *$5,000,000: Provided*, That this appropriation shall be available, in addition to other appropriations for these purposes, for [the purchase of] *payments in* the foregoing currencies: *Provided further*, That funds appropriated herein shall be used [to purchase] *for payments in* such foreign currencies as the Department determines are needed and can be used most effectively to carry out the purposes of this paragraph, and such foreign currencies shall, pursuant to the provisions of section 104(a), be set aside for sale to the Department before foreign currencies which accrue under said title

I are made available for other United States uses: *Provided further*, That not to exceed $25,000 of this appropriation shall be available for [purchase of] *payments in* foreign currencies for expenses of employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574), as amended by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a)."

The changes in language proposed are all technical changes relating to the text for appropriation language for "special foreign currency program" appropriations to any U.S. agency. These changes are proposed to make it clear that the purchase of currencies is not in itself a charge to an appropriation, but that charges to the appropriations are made only at the time the currencies are expended for the purposes of the program concerned. There has been some misunderstanding of the previous language, since the wording implied that the purpose of the appropriation would be fulfilled by purchase of foreign currencies from the Treasury. Thus, this change will have no effect in any way on the nature and scope of the program.

Cooperative State Research Service

The 1965 budget estimates include proposed changes in appropriation language as explained below. New language is italicized and deleted matter is enclosed in brackets.

"PAYMENTS AND EXPENSES

"For payments to agricultural experiment stations, for grants for cooperative forestry research, and for other expenses, including [$39,363,000] *$40,863,000* to carry into effect the provisions of the Hatch Act, approved March 2, 1887, as amended by the Act approved August 11, 1955 (7 U.S.C. 361a–361i), including administration by the United States Department of Agriculture; [$500,000 for payments authorized under section 204(b) of the Agricultural Marketing Act of 1946 (7 U.S.C. 1623);] $1,000,000 for grants for cooperative forestry research under the Act approved October 10, 1962 [76 Stat. 806–807]; (*16 U.S.C. 582a–582a–7*); $310,000 for penalty mail costs of agricultural experiment stations under section 6 of the Hatch Act of 1887, as amended; and [$460,000] *$287,000* for necessary expenses of the Cooperative State [Experiment Station] *Research* Service, including administration of payments to State agricultural experiment stations, funds for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574), and not to exceed [$25,000] *$30,000* for employment under section 15 of the Act of August 2, 1946 (5 U.S.C. 55a); in all, [$41,633,000] *$42,460,000*."

The first change in language would delete the program which is being discontinued in 1965 as explained in more detail in the justifications for this Service.

The second change eliminates the statutory reference and substitutes therefor the United States Code reference. This change has no effect on the nature or scope of the program.

The third change revises the name of the agency pursuant to the authorization contained in Reorganization Plan No. 2 of 1953 (5 U.S.C. 511 note).

The fourth change would increase the limitation on funds available for the hiring of experts and consultants from $25,000 to $30,000. With the increasing need for program and project evaluation to accomplish more effective research programs, the need for consultant services for reviews and other purposes increases. The new forestry research program covers additional institutions which are not included in the regular Hatch Act grant program. The use of consultants will partially offset the need for hiring additional permanent technical staff in several scientific areas.

Extension Service

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets:

"COOPERATIVE EXTENSION WORK, PAYMENTS AND EXPENSES

"Payments to States and Puerto Rico: For payments for cooperative agricultural extension work under the Smith-Lever Act, as amended by the Act of June 26, 1953 [(7 U.S.C. 341–348)], the Act of August 11, 1955 [(7 U.S.C. 347a)] and the Act of October 5, 1962 [(76 Stat. 745), $65,725,000] (*7 U.S.C. 341–349*),

$63,135,000; and payments and contracts for such work under section 204(b)–205 of the Agricultural Marketing Act of 1946 (7 U.S.C. 1623–1624), $1,570,000; in all, [$67,295,000] *$64,705,000: Provided*, That * * *

"Federal Extension Service: For administration of the Smith-Lever Act, as amended by the Act of June 26, 1953 [(7 U.S.C. 341–348)], the Act of August 11, 1955 [(7 U.S.C. 347a)] and the Act of October 5, 1962 [76 Stat. 745)] (*7 U.S.C. 341–349*), and extension aspects of the Agricultural Marketing Act of 1946 (7 U.S.C. 1621–1627), and to coordinate and provide program leadership for the extension work of the Department and the several States and insular possessions, [$2,500,000] *$2,451,000.*"

The proposed changes combine and substitute United States Code citations for statutory references. These changes have no effect on the nature or scope of the programs.

SOIL CONSERVATION SERVICE

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets.

WATERSHED PROTECTION

"* * * *Provided further*, That not to exceed [$3,000,000,] *$5,000,000*, together with the unobligated balance of funds previously appropriated for loans and related expense, shall be available for such purposes."

This proposed change would increase the amount available for loans and related expense. The increase is needed to accelerate approval of the large backlog of loan applications from local sponsors needing financial assistance to meet their share of the costs of structural measures in watershed projects. The need for funds for this purpose is explained in more detail in the justifications for this Service.

FLOOD PREVENTION

"* * * *Provided further*, That not to exceed [$1,000,000,] *$200,000*, together with the unobligated balance of funds previously appropriated for loans and related expense, shall be available for such purposes."

This change proposes a reduction of $800,000 in funds to be made available for loans and related expense. The proposed reduction is due to the availability in fiscal year 1965 of an estimated $1,734,079 of prior year unobligated balances. Current estimates of needs indicate the reduced amount will, with the use of prior year balances, provide sufficient funds to meet the needs for loans and related expense of this program in fiscal year 1965. A more detailed explanation of this program is contained in the justifications for this Service.

RESOURCE CONSERVATION AND DEVELOPMENT

"* * * *Provided*, That not to exceed [$500,000,] *$800,000*, of such amount shall be available for loans and related expenses, under subtitle A of the Consolidated Farmers Home Administration Act of 1961, as amended: * * *".

This change proposes an increase of $300,000 in the amount available for loans and related expenses in the 1965 fiscal year. The $800,000 of new appropriation plus the $500,000 appropriated in 1964 would provide $1,300,000 for loans and related expenses in 1965. A more detailed explanation of this program is contained in the justifications for this Service.

AGRICULTURAL MARKETING SERVICE

The 1965 budget estimates include proposed changes in appropriation language as explained below. New language is italicized and deleted matter is enclosed in brackets.

SPECIAL MILK PROGRAM

"For necessary expenses to carry out the Special Milk Program, as authorized by the Act of August 8, 1961 (7 USC 1446, note), [$100,000,000] *$99,831,000, to be derived by transfer from funds available under section 32 of the Act of August 24, 1935 (7 U.S.C. 612c).*"

The proposed change in language would provide that the funds in 1965 for the special milk program would be made available by transfer from section 32. Funds were provided for this program in 1963 and 1964 by direct appropriation.

In utilizing these section 32 funds for the special milk program, they will be expended for increasing the domestic consumption of milk in accordance with the rules governing the operation of the special milk program. The amount expended under the special milk program would not be applied against the amounts that could be devoted to this commodity under section 32 programs. This assures continuation of the special milk program basically as at present and, at the same time, that the maximum flexibility would be maintained under section 32 funds for meeting surplus removal needs for perishables and other authorized section 32 programs.

SCHOOL LUNCH PROGRAM

"For necessary expenses to carry out the provisions of the National School Lunch Act, *as amended* (42 U.S.C. 1751–1760), [$137,000,000] *$147,610,000 including $2,000,000 for special assistance to needy schools, as authorized by law*: * * *".

The proposed change would make funds available for special assistance to needy schools pursuant to 42 U.S.C. 1751–1760. The amended School Lunch Act contains a provision (sec. 11) authorizing an appropriation each year to provide special assistance to schools in serving free or reduced-price lunches to schoolchildren. The 1965 estimates include funds for this special assistance. Since any funds provided under this authorization must be treated separately from the remainder of the appropriation in the distribution to States and is not available for later reapportionment among the States under the regular formula, special language is needed to set aside the part of the appropriation intended for this purpose. The need for funds for special assistance is explained in more detail in the justification of appropriation estimate for the school lunch program.

REMOVAL OF SURPLUS AGRICULTURAL COMMODITIES

"No funds available under section 32 of the Act of August 24, 1935 (7 U.S.C. 612c) shall be used for any purpose other than commodity program expenses as authorized therein, and other related operating expenses, except for (1) transfers to the Department of the Interior as authorized by the Fish and Wildlife Act of August 8, 1956, (2) transfers otherwise provided in this Act, (3) not more than [$4,754,000] *$2,924,000* for formulation and administration of marketing agreements and orders pursuant to the Agricultural Marketing Agreement Act of 1937, as amended, and the Agricultural Act of 1961, *and* (4) not more than [$45,000,000] *$51,125,000* for expenses for the Pilot Food Stamp Program [,and (5) not more than $16,000,000 for transfer to the Commodity Credit Corporation to be used to increase domestic consumption of any farm commodity or farm commodities determined by the Secretary of Agriculture to be in surplus supply, and hereafter such sums (not in excess of $25,000,000 in any one year) as may be approved by the Congress shall be available for such purpose, such authorization not to restrict authority in existing law, of which amount $11,000,000 shall remain available until expended for construction and equipping of research facilities determined to be needed as a result of a special survey]."

The first and second changes relate to the revision in the limitations proposed in 1965 on the amounts of section 32 funds which may be used in carrying out the marketing agreement and order and the food stamp programs. These changes in amounts are explained in the justification of increases and decreases of section 32 funds contained in volume 2, pages 120–124 of these explanatory notes.

The third change would delete the language added to the 1964 Appropriation Act authorizing the transfer of section 32 funds to the Commodity Credit Corporation. This proviso authorizes for 1964 a transfer of not more than $16 million to increase domestic consumption of any farm commodity or farm commodities determined by the Secretary of Agriculture to be in surplus supply, of which $11 million is available for constructing and equipping specified research facilities as determined to be needed. It also provides continuing authority for transfers each year, in amounts to be approved by the Congress up to $25 million, for the purpose of increasing domestic consumption. Plans are underway for the effective use of the funds provided by this authorization and the language is not needed in 1965.

Agricultural Stabilization and Conservation Service

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is in italic and deleted matter is enclosed in brackets.

Expenses, Agricultural Stabilization and Conservation Service

"For necessary administrative expenses of the Agricultural Stabilization and Conservation Service, * * * sections 7 to 15, 16(a), 16(d), 16(e), 16(f), and 17 of the Soil Conservation and Domestic Allotment Act, as amended (16 U.S.C. 590g–[590(o), 590p(a), and] 590q; [76 Stat. 606–607] 7 *U.S.C. 1010–1011*) as added by section 132 of the Act of August 8, 1961; subtitles B and C of the Soil Bank Act (7 U.S.C. 1831–1837, 1802–1814, and 1816); and laws pertaining to the Commodity Credit Corporation, [$106,549,500] *$114,562,000: Provided*, That, in addition, not to exceed [$94,885,000] *$87,708,000* may be transferred to and merged with this appropriation from the Commodity Credit Corporation fund (including not to exceed [$40,051,000] *$35,868,000* under the limitation on Commodity Credit Corporation administrative expenses): *Provided further*, That other funds made available to Agricultural Stabilization and Conservation Service for authorized activities may be advanced to and merged with this appropriation [: *Provided further*, That no part of the funds appropriated or made available under this Act shall be used, (1) to influence the vote in any referendum; (2) to influence agricultural legislation except as permitted in 18 U.S.C. 1913; or (3) for salaries or other expenses of members of county and community committees established pursuant to section 8(b) of the Soil Conservation and Domestic Allotment Act, as amended, for engaging in any activities other than advisory and supervisory duties and delegated program functions prescribed in administrative regulations]."

The first change is to bring citations to the United States Code up to date.

The second change would eliminate language inserted last year by the Congress. It is felt that present regulations and directives are in conformity with the requirements provided by the language. The continuation of this proviso may give the implication that it is intended to restrict the administration of farm programs under the committee system established pursuant to section 8(b) of the Soil Conservation and Domestic Allotment Act, as amended. With respect to referendums, it is and continues to be the Department's policy that committeemen in the performance of their duties, are required to furnish farmers all the facts involved and then let the farmer decide how he wishes to vote. It is believed that nothing in this language affects that policy.

AGRICULTURAL CONSERVATION PROGRAM

"For necessary expenses to carry into effect the program authorized in sections 7 to 15, 16(a), and 17 of the Soil Conservation and Domestic Allotment Act, approved February 29, 1936, as amended (16 U.S.C. 590g–590(o), 590p(a), and 590q), including not to exceed $6,000 for the preparation and display of exhibits, including such displays at State, interstate, and international fairs within the United States, [$215,000,000] *$225,000,000*, to remain available until December 31, of the next succeeding fiscal year for compliance with the programs of soil-building and soil- and water-conserving practices authorized under this head in the Department of Agriculture and Related Agencies Appropriation Acts, [1962] *1963* and [1963] *1964*, carried out during the period July 1, [1961] *1962*, to December 31, [1963] *1964*, inclusive: *Provided*, That none of the funds herein appropriated shall be used to pay the salaries or expenses of any regional information employees or any State information employees, but this shall not preclude the answering of inquiries or supplying of information at the county level to individual farmers: *Provided further*, That no portion of the funds for the [1964] *1965* program may be utilized to provide financial or technical assistance for drainage on wetlands now designated as Wetland Types 3 (III), 4 (IV), and 5(V) in United States Department of the Interior, Fish and Wildlife Service Circular 39, Wetlands of the United States, 1956: *Provided further*, That necessary amounts shall be available for administrative expenses in connection with the formulation and administration of the [1964] *1965* program of soil-building and soil- and water-conserving practices, including related wildlife conserving practices, under the Act of February 29, 1936, as amended (amounting to [$250,000,000] *$120,000,000* [including] *excluding* administration, * * *".

The change would reduce the advance authorization for the 1965 program to $120 million. The changes from the 1964 authorization are as follows:

	1964	1965	Decrease
Program funds	$220,000,000	$120,000,000	−$100,000,000
Administrative expenses	30,000,000		−30,000,000
Total	250,000,000	120,000,000	−130,000,000

The 1964 authorization included estimated administrative expenses in the amount of $30 million. Since these expenses are actually paid from the account expenses, ASCS, and amounts for this purpose (and administrative expenses for all other programs administered by ASCS) are included in the estimate for that appropriation, it is proposed to eliminate this amount from the program authorization. This will simplify recordkeeping.

CROPLAND CONVERSION PROGRAM

1 [Land-Use Adjustment Program] *Cropland Conversion Program (Liquidation of Contract Authorization)*

"For necessary expenses to promote the conservation and economic use of land pursuant to the provisions of section 16(e) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h, 590p), as amended

2 "[by the Act of September 27, 1962 (76 Stat. 606), $11,350,000], *$10,000,000*, to remain available until expended."

The first change is made in the heading of the item to reflect a more current and accurate description of the program. The words "liquidation of contract authorization" are included since, pursuant to the Food and Agriculture Act of 1962, the Secretary is authorized to announce a program and to incur obligations related to such program in advance of appropriations. The appropriation requested, therefore, is considered as being for the purpose of paying any obligations which may be incurred under the authority of the basic law.

The second change is made to simplify a reference to basic law.

OFFICE OF THE INSPECTOR GENERAL

The 1965 budget estimates propose a new appropriation item as follows:

SALARIES AND EXPENSES

"*For necessary expenses of the Office of the Inspector General, including employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574), $9,874,000.*"

The proposed appropriation language would appropriate funds in fiscal year 1965 for expenses in connection with the internal audit and investigation program of the Department of Agriculture.

The language would authorize the use of funds for the Office of the Inspector General who is responsible for: (*a*) assuring that existing laws, policies, and programs are effectively complied with on every level of administration in accordance with the intent of the Congress and the Secretary; (*b*) insuring prompt and appropriate corrective action in those areas in which deviation from established law, policy, procedure, rules, or regulations has developed; (*c*) coordinating and correlating the Department's internal audit and investigative activities with the work of various investigative agencies of the executive and legislative branches of the Government.

The language would also provide the Office of the Inspector General with necessary authority to employ individuals on a temporary basis in the investigation of public compliance with the Statutes and Department regulations governing the food stamp program. These individuals are employed on an individual case basis to exchange food stamp coupons. Because of the relatively limited time period these individuals are needed, it is not feasible or desirable to employ these persons under the civil service rules and regulations governing temporary employment.

OFFICE OF INFORMATION

The 1965 budget estimates include the proposed change in appropriation language explained below. New language is italicized.

SALARIES AND EXPENSES

"For necessary expenses of the Office of Information * * * of which total appropriation not to exceed $537,000 may be used for farmers' bulletins, which shall be adapted to the interests of the people of the different sections of the country, an equal proportion of four-fifths of which shall be *available to be* delivered to or sent out under the addressed franks furnished by the Senators, Representatives, and Delegates in Congress, as they shall direct (7 U.S.C. 417), and not less than two hundred and thirty-two thousand two hundred and fifty copies for the use of the Senate and House of Representatives of part 2 of the annual report of the Secretary (known as the Yearbook of Agriculture) as authorized by section 73 of the Act of January 12, 1895 (44 U.S.C. 241) : * * *".

This change is to specifically provide in the language of this item the long-standing practice authorized by the Congress of making bulletins available to Members through the quota system of establishing credits annually to each Member. This practice was established in 1895 when the authorizing appropriation was included in the appropriation for seed distribution which was done through equal yearly quotas to all Members. The quotas not used in 1 year have accumulated to Members' credit for use in subsequent years at their discretion.

The General Accounting Office has questioned why the Department has not delivered to Members of Congress four-fifths of the quantity of bulletins printed. In view of the wide variation of subjects covered by the bulletins, they are of unequal interest to all Members, some of whom represent primarily urban areas and others represent largely rural areas. This results in unrequested or unused quantities of bulletins which if not used by the Department would be wasted. If instead of using such bulletins, the Department reprinted additional quantities to meet its needs this would be an uneconomic and unnecessary use of public funds. Therefore, the Department has followed the long-accepted practice of printing limited quantities of bulletins in line with the anticipated congressional use. Any other procedure would result in the accumulation of millions of obsolete and unneeded copies of some bulletins.

The Congress in many appropriation hearings has reviewed and generally accepted the use by the Department, of any bulletins not called for by Members, in its cooperation with educational institutions and the State extension serivces, in its wartime activities, and in the economical handling of correspondence through the use of low-cost bulletins. All such uses are authorized under the Department's mandate to disseminate agricultural information.

This change in language does not contemplate any revision in the longstanding requirement that four-fifths of the quantity of farmers' bulletins shall be made available to Members of the Congress. It will simply provide affirmatively for the practical adherence to this requirement of law and the well-established practice which has been followed with congressional sanction for many years.

NATIONAL AGRICULTURAL LIBRARY

The 1965 budget estimates include proposed changes in appropriation language explained below. New language is italicized and deleted matter is enclosed in brackets.

SALARIES AND EXPENSES

"For necessary expenses of the National Agricultural Library, [$1,426,140] *$1,347,000: Provided, That this appropriation shall be available for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574), and not to exceed $35,000 shall be available for employment under section 15 of the Act of August 2, 1946 (5 U.S.C. 55a).*"

The proposed change adds language which would provide the necessary authority to incur obligations in an amount not to exceed $35,000 to contract for personal services for translations of publications and for developmental type activities relating to mechanization of library functions. The volume of foreign scientific

publications continues to increase as does the need to catalog, index, and translate these materials, particularly those in the slavic and oriental languages. Such authority would significantly improve the library's position to meet demands in this area in such instances when it is not possible or practical to obtain translation services through employment under civil service rules and regulations. Also, this authority may similarly be needed with respect to the mechanization of certain of the library functions. It is anticipated that the further development of this work, now in its initial stages, may entail some professional assistance or guidance in the automatic data processing field, as has been indicated by the experience of the National Library of Medicine.

LIBRARY FACILITIES

1. "For [the preparation of plans, specifications, and drawings]
2 *construction of facilities* for the National Agricultural Library
3 [, $450,000], to remain available until expended, *$7,000,000, with which shall be merged the unexpended balance of funds heretofore appropriated under this head.*"

The first change deletes language included in the 1964 Appropriation Act authorizing the preparation of plans, specifications, and drawings for a new National Agricultural Library facility. This language is not needed in 1965.

The second change proposes new language which would authorize the construction of the National Agricultural Library. A more detailed explanation of this proposal will be found in the justification for the item, "Library facilities."

The third change would merge any unexpended balance of the $450,000 appropriated under this appropriation item for planning purposes in 1964 with the funds requested in 1965 for construction of the new library.

OFFICE OF MANAGEMENT SERVICES

The 1965 budget estimates propose a new appropriation item as follows:

SALARIES AND EXPENSES

"*For expenses necessary to enable the Office of Management Services to provide management support services to selected agencies and offices of the Department of Agriculture, $2,527,000.*

The proposed appropriation language would provide a separate appropriation in fiscal year 1965 for expenses in connection with management support services provided for 17 agencies and offices of the Department of Agriculture.

The language would authorize the use of funds for the Office of Management Services which is responsible for the budget, accounting, and related financial management services; information services; personnel services; organization and related services; and procurement, property, space, communications, messenger, paperwork management, and related services of the 17 agencies.

RURAL ELECTRIFICATION ADMINISTRATION

The 1965 budget estimates include the proposed change in appropriation language explained below. New language is italicized and deleted matter is enclosed in brackets.

LOAN AUTHORIZATIONS

"For loans in accordance with said Act, * * * as follows: Rural electrification program, [$425,000,000] *$365,000,000*, of which [$150,000,000] *$65,000,000* shall be placed in reserve to be borrowed under the same terms and conditions to the extent that such amount is required during the current fiscal year under the then existing conditions for the expeditious and orderly development of the rural electrification [program] *and telephone programs*; * * *".

"The proposed change provides the authority to use the reserve authorization for both the electrification and telephone programs. Telephone loans in 1965 are estimated to be less than in 1964. However, the proposed language would provide additional amounts for the expeditious and orderly development of the telephone loan programs if the need for telephone loans proves to be greater than estimated. The proposed change would permit the most effective use of total loan authorizations available.

FARMERS HOME ADMINISTRATION

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets.

RURAL HOUSING LOANS

"[RURAL HOUSING LOANS]

"[For additional rural housing loans as authorized by title V of the Housing Act of 1949, as amended, $25,000,000, to remain available until expended.]"

The change would eliminate the direct appropriation for rural housing loans, included by Congress as a nonrecurring item in the 1964 Appropriation Act. Rural housing loans in 1965 will be made primarily from the proposed rural housing insurance fund, which when enacted, will make a separate appropriation for this purpose unnecessary in 1965.

DIRECT LOAN ACCOUNT

"Direct loans and advances * * * Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1921), as amended, may be made from funds available in the Farmers Home Administration direct loan account as follows: real estate loans, [$60,000,000] *$25,000,000;* and operating loans, $300,000,000 [, of which $50,000,000 shall be placed in reserve to be used only to the extent required during current fiscal year under the then existing conditions for the expeditious and orderly conduct of the loan program]."

The change would eliminate the contingency reserve language from the 1964 Appropriation Act. The entire amount requested for 1965 is expected to be required in 1965, making a contingency reserve unnecessary.

RURAL RENEWAL

"For necessary expenses, including administrative expenses, in carrying out rural renewal activities under section 32(e) of title III of the Bankhead-Jones Farm Tenant Act, as amended, [$1,200,000] *$2,190,000 to remain available until expended.*"

The change is needed to assure the most effective use of funds available under this program. Careful evaluation of project proposals will frequently require intensive study not only of specific projects but also of overall area needs. During review and development of specific proposals for individual rural renewal areas, it will often be necessary to commit rural renewal funds for completion of studies and for loans and other assistance beyond the end of the fiscal year. Results of detailed studies, analyses and surveys may point up the need for reallocating funds originally committed to projects under study. The proposed language would provide needed flexibility, permitting the appliction of funds to the most feasible and worthwhile projects.

RURAL HOUSING FOR THE ELDERLY REVOLVING FUND

"For loans pursuant to section 515(a) of the Housing Act of 1949, as amended (42 U.S.C. [1484; 76 Stat. 671] *1485*), including advances pursuant to section 335(a) of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1985) in connection with security for such loans, [$3,500,000] *$5,000,000.*"

The change inserts United States Code citations in lieu of references to the Statutes at Large. This change has no effect on the scope or nature of the program.

SALARIES AND EXPENSES

"For necessary expenses of the Farmers Home Administration, not otherwise provided for, in administering the programs authorized by the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1921), as amended, title V of the Housing Act of 1949, as amended (42 U.S.C. 1471–1484), and the Rural Rehabilitation Corporation Trust Liquidation Act, approved May 3, 1950 (40 U.S.C. 440–444); [$38,925,900] *$40,284,000,* together with not more than [$1,050,000] *$2,500,000* of the charges collected in connection with the insurance of loans as authorized by section 309(e) of the Consolidated Farmers Home Administration Act of 1961, as amended, and section 514(b)(3) of the Housing Act of 1949, as amended [: Provided, That, in addition, not to exceed $500,000 of the funds available for the various programs administered by this

Agency may be transferred to this appropriation for temporary field employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (5 U.S.C. 574) to meet unusual or heavy workload increases]."

The change would eliminate the provision for transfer of other funds to this appropriation for temporary field employment. The proviso to be deleted was added to the 1964 appropriation bill by Congress. Amounts required for temporary field employment in fiscal year 1965 are included in the estimates for the regular salaries and expense appropriation. Hence, this proviso will not be needed in 1965.

COMMODITY CREDIT CORPORATION

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets.

REIMBURSEMENT FOR NET REALIZED LOSSES

"To *partially* reimburse the Commodity Credit Corporation for net realized losses sustained during the fiscal year ending June 30, [1962] *1963* pursuant to the Act of August 17, 1961 (15 U.S.C. 713a–11, 713a–12), [$2,699,400,000] *$1,724,000,000*: *Provided, That after June 30, 1963, the portion of borrowings from Treasury equal to the unreimbursed realized losses recorded on the books of the Corporation after June 30 of the fiscal year in which such losses are realized, shall not bear interest and interest shall not be accrued or paid thereon.*

The first change indicates that the appropriation requested will only partially reimburse the Corporation for 1963 realized losses.

The second change updates the reference to the fiscal year involved.

The third change will have the effect of terminating at the close of each fiscal year, beginning with the fiscal year 1964, interest on borrowings from the Treasury in an amount equivalent to the realized losses sustained by the Corporation (1) during the fiscal year 1964 and succeeding fiscal years, and (2) in prior fiscal years, for which the Corporation has not been reimbursed by appropriation. Interest would continue to be charged on borrowings for losses sustained during a particular fiscal year but not after the end of that fiscal year. This would limit interest expenses to borrowings for current operations and would avoid increasing future appropriation requests by interest charges resulting solely from deferral of reimbursement to the Corporation for realized costs and losses applicable to past operations.

"The following tabulation shows the computation of interest-free borrowings and estimated interest savings in fiscal years 1964 and 1965:

[In millions]

Fiscal year in which realized losses were sustained	Realized losses	Unreimbursed realized losses	Estimated interest savings at 3½ percent of annum (simple average)
			Fiscal year 1964
1961	$3,335.5	$1,057.0	—$37.0
1962	2,799.4	100.0	—3.5
1963	2,654.9	2,654.9	—93.0
Interest-free borrowings, June 30, 1964		3,811.9	—133.5
			Fiscal year 1965
1961	3,335.5	1,057.0	—37.0
1962	2,799.4	100.0	—3.5
1963	2,654.9	930.9	—32.6
1964	2,835.6	2,835.6	—99.2
Interest-free borrowings, June 30, 1965		4,923.5	—172.3

FOREIGN ASSISTANCE PROGRAMS

The 1965 budget estimates include the proposed changes in appropriation language listed and explained below. New language is italicized and deleted matter is enclosed in brackets.

PUBLIC LAW 480

1 "For expenses during fiscal year [1964] *1965*, * * *".
The change updates reference to the year involved.

INTERNATIONAL WHEAT AGREEMENT

1 "For expenses during fiscal year [1964] *1965* * * *".
The change updates reference to the year involved.

BARTERED MATERIALS FOR SUPPLEMENTAL STOCKPILE

1 "For expenses during fiscal year [1964] *1965* * * *".
The change updates reference to the year involved.

GENERAL PROVISIONS

Section 601.—Provides authority for the purchase, replacement, and hire of passenger motor vehicles. The following changes are proposed in this section for 1965 (new language italicized; deleted matter in brackets):

"SEC. 601. Within the unit limit of cost fixed by law, appropriations and authorizations made for the Department under this Act shall be available for the purchase, in addition to those specifically provided for, of not to exceed [five hundred and fifteen] *four hundred and ninety-two* passenger motor vehicles, of which four hundred and [ninety-eight] *fifty-two* shall be for replacement only, and for the hire of such vehicles."

The estimates propose the acquisition of 492 passenger motor vehicles from funds provided in the Agricultural Appropriation Act. This number is exclusive of 155 for the Forest Service. Of the 492 vehicles proposed for acquisition, 452 would be acquired to replace existing vehicles and 40 would be purchased without exchange of old vehicles.

Of the 40 vehicles to be acquired without exchange of old vehicles, 8 are for the Agricultural Research Service, 26 for the Soil Conservation Service, and 6 for the Statistical Reporting Service.

Two of the new vehicles for the Agricultural Research Service will be required in connection with the staffing of the metabolism and radiation research laboratory at Fargo, N. Dak.; one new vehicle will be needed in connection with operations at the new entomology research laboratory at Columbia, Mo.; two additional vehicles will be needed in connection with expanded soil and water research at Sidney, Mont., and Florence, S.C.; two vehicles are needed in connection with the initiation of research and staffing at the new field station at Twin Falls, Idaho; and the remaining vehicle would be used in connection with environmental research at Davis, Calif.

Twenty of the new vehicles for the Soil Conservation Service will be needed in connection with the new resource conservation and development program initiated in fiscal year 1964. The vehicles would be used by project coordinators, planning leaders, and technical specialists working with local sponsors to develop and carry out plans in approved project areas. The remaining six vehicles are needed under the watershed protection program to provide transportation needed to conduct adidtional river basin surveys and investigations as proposed in the estimates.

The six additional vehicles for the Statistical Reporting Service are necessary to meet the transportation demands of the expanded crop and livestock estimates program in Orlando, Fla., West Lafayette, Ind., Springfield, Ill., Columbia, Mo., Austin, Tex., and Sioux Falls, S. Dak.

The vehicles proposed to be replaced will all be at least 6 years old or will have mileage in excess of 60,000 miles at time of disposal, with the exception of a limited number which may become involved in accidents or damaged through operation over very rough terrain. More detailed justifications of the need for acquisition of the 492 motor vehicles appear in the justifications for the applicable agencies.

Section 602.—Provides that provisions of law prohibiting or restricting the employment of aliens shall not apply to employment under the appropriation for the Foreign Agricultural Service.

Section 603.—Provides that funds available to the Department of Agriculture shall be available for uniforms or allowances therefor as authorized by the act of September 1, 1954, as amended (5 U.S.C. 2131).

Section 604.—Prohibits the Department from issuing any prediction or forecast with respect to future prices or price trends on cotton, except as to damage, threatened or caused by insects or pests.

Section 605.—Prohibits the Department from purchasing twine manufactured from commodities or materials produced outside of the United States except to provide materials required in or incident to research or experimental work where no suitable domestic product is available.

Section 606.—Provides that not less than $1,500,000 of the appropriations of the Department for research and service work authorized by the acts of August 14, 1946, July 28, 1954, and September 6, 1958 (7 U.S.C. 427, 1621–1629; 42 U.S.C. 1891–1893), shall be available for contracting in accordance with these acts.

Section 607.—Prohibits the Department from using any appropriated funds for conducting or assisting in conducting any program related directly or indirectly to the establishment of a National Service Corps or similar Domestic Peace Corps type of program.

This language is proposed for deletion as follows (deleted matter in brackets):

[SEC. 607. No part of the funds appropriated by this Act shall be used to conduct or assist in conducting any program (including but not limited to the payment of salaries, administrative expenses, and the conduct of research activities) related directly or indirectly to the establishment of a national service corps or similar domestic peace corps type of program.]

The Department proposed deletion of this language as it might prevent participation in activities that would substantially improve economic conditions in rural areas.

Mr. WHITTEN. We have discussed some of the language changes for the record heretofore, so you might just touch on the high points.

Mr. GRANT. All right. Mr. Chairman, some of the language changes have already been discussed at some length when the various agencies appeared before you, but I will just mention some of the most significant changes.

AGRICULTURAL RESEARCH SERVICE

A change involving the Agricultural Research Service is indicated on page 2 of the subcommittee print. This involves a change in the number of buildings that can be constructed within the $45,000 limitation. The Agricultural Research Service has presented a need for six buildings already, but we are proposing in 1965 to get permission to build five of those small buildings at a cost not to exceed $45,000, each.

We are proposing to delete the language, also on page 2, that was inserted last year in the Appropriation Act for the transfer of funds from Commodity Credit Corporation for research. Those funds will remain available until expended.

We are proposing new language—it is on page 3 of the subcommittee print—for $2,394,300 to remain available until expended for construction. That is for two buildings; one at Fort Collins, Colo., for sugarbeet, pasture, and range research and the other for the construction and alteration of facilities at Beltsville, Md. Both of these have been discussed at some length with the committee, when the Agricultural Research Service appeared.

Mr. MICHEL. While we are on these buildings and construction in ARS, whatever came out of that facility up at Lansing, Mich., at the University of Michigan State? Was there any testimony given to the effect that the university was thinking of moving out into the area where the present facility is? Was that developed at all?

Mr. GRANT. There is a brief statement in our justification on this. However, there has been another development since then having to do with this particular facility. It is a matter of the university wanting the land on which the existing facilities are located and involves a proposal to move farther out from town.

Mr. MICHEL. Right.

Mr. GRANT. The problem is that the replacement of facilities proposed by the State, that they are willing to provide, was not exactly of the order of the present Department facilities.

Mr. MICHEL. It was not comparable to what they have now?

Mr. GRANT. That is right.

Mr. MICHEL. Is there anything in this bill that would make any change in the existing situation as it is today?

Mr. GRANT. No. However, I understand that it now looks as though the matter may be worked out on a basis satisfactory to both the university and the Department.

Mr. MICHEL. OK.

Mr. GRANT. The next change is on page 10 of the subcommittee print under the special foreign currency appropriation. It is to delete the words "purchase of" in the first line and substitutes the word "payments." This is a change that is being made throughout the budget for all special foreign currency appropriations to make it clear that the funds are to be used for making payments in foreign currencies, rather than leaving the inference that the appropriation is for purchase of currencies. It has no effect on the program.

Mr. WHITTEN. That is a worthwhile change. We have to prove again each year that it is not what it seems to be.

COOPERATIVE STATE RESEARCH SERVICE

Mr. GRANT. The next change is on page 14, Cooperative State Research Service. There is a deletion of the reference to the payments authorized under section 204(b) of the Agricultural Marketing Act of 1946. This was discussed during the hearing with that agency.

The proposal to eliminate the funds for payments to state experiment stations for marketing research would make it necessary to delete this language.

There is another change near the end of the paragraph having to do with the increase from $25,000 to $30,000 for the employment under section 15 of the act of August 2, 1946.

This relates to the employment of consultants and experts by the Department. In connection with the new program for forestry grants the Administrator has indicated a need to use consultants, which would make it unnecessary to hire permanent staff in several of the technical fields.

SPECIAL MILK PROGRAM

The next significant change is on page 51 of the committee print. Mr. Chairman, I am covering only the major changes. Those involving changes in the code citations and similar minor items, I am not discussing.

Mr. WHITTEN. Fine. Continue just as you are doing.

Mr. GRANT. In the special milk program provision is made for language to permit the transfer of funds from section 32 rather than finance the program by appropriation.

SCHOOL LUNCH PROGRAM

On page 53, under "School lunch program," language is proposed to authorize the use of $2 million for special assistance to needy schools as authorized by the amendment to the School Lunch Act.

These funds must be treated separately from the rest of the funds in the appropriation which are available for distribution to States under the formula. That is the reason for the proposed new language.

SECTION 32

On page 56, under the item for section 32, we are eliminating the language added in the 1964 act. That is the last part of this language relating to the transfer of not more than $16 million to Commodity Credit Corporation for purposes which would increase domestic consumption of farm commodities.

We also are deleting that part of the language which provides that hereafter sums not in excess of $25 million in any 1 year may be transferred for these purposes. This is permanent legislation and it is not necessary that it be carried in an appropriation act each year.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

The next change is on page 69, under "Expenses, Agricultural Stabilization and Conservation Service," where it is proposed to delete the last proviso providing that no part of the funds may be used to influence the vote in any referendum, to influence agriculture legislation, or for salaries.

Mr. WHITTEN. You mean they are or have already influenced it, and there is no need to carry any language?

Mr. GRANT. No, the regulations and directives of the Department now conform to the provisions of this language. It is felt that the continuation of this proviso might leave the implication that it is intended to restrict the administration of the farm programs under the county committee system, where it is the Department's policy that the committeemen shall furnish farmers all of the facts involved and let the farmer decide how he wishes to vote. I believe that this language adds nothing to that policy.

OFFICE OF INSPECTOR GENERAL

The next change is on page 85, Office of the Inspector General. In addition to providing language for this separate appropriation, it also provides for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944. This is to permit employment of individuals on a temporary basis in connection with investigation activities, primarily in connection with the food stamp program where they do need, on occasion, to employ people on a temporary basis to help in that particular effort.

OFFICE OF INFORMATION

On page 88, in the Office of Information, a change is proposed to clarify the record with respect to distribution of publications to Members of Congress by inserting the word "available." This was discussed by the Director of Information a few days ago.

NATIONAL AGRICULTURAL LIBRARY

The next change is in connection with the library, page 90, to add language authorizing the employment of temporary help and employment of experts, primarily in connection with translation of publications, and for experts that may be needed in connection with the mechanization of certain library functions.

On page 92, in connection with the library, there is language to provide for the construction of the new library facilities and also to provide that the appropriation shall be merged with the appropriation provided in 1964 for the preparation of plans.

This will facilitate the activities of the library.

OFFICE OF MANAGEMENT SERVICES

On page 93, under "Office of Management Services," there is a new appropriation item covering the work of the Office of Management Services which will be discussed with the committee tomorrow.

RURAL ELECTRIFICATION ADMINISTRATION

Under the "Rural Electrification Administration" on page 100, the word "program" is being eliminated and there is inserted, in lieu thereof, "and telephone program," for the purpose of making the contingency fund applicable to both the electrification and telephone loan programs, rather than just to the electrification program.

Mr. WHITTEN. I am glad to see the Department finally gave up on that reserve.

FARMERS HOME ADMINISTRATION

Mr. GRANT. On page 108, under "Direct loan account," for Farmers Home Administration, it is proposed to eliminate the language establishing the contingency reserve for operating loans on the basis that the estimate, as presented, reflects the total amount expected to be available and, therefore, the continguency would not be necessary.

On page 117, under "Salary and expenses, Farmers Home Adminis-

tration," language was inserted last year in the 1964 appropriation act to provide for the transfer of $500,000 from loan funds for temporary employment in the Farmers Home Administration.

Steps are being taken to make available approximately $466,000 by transfer from the item "Housing loans for the elderly" revolving fund in 1964. The 1965 budget estimate includes the full amount estimated to be needed for salaries and expenses next year, making this proviso unnecessary.

Mr. WHITTEN. Mr. Grant, the committee feels that we should give attention to temporary help. Is there any new language required? Should we cover that with an appropriate statement in our report? Under the money we provide for Farmers Home Administration in the committee, up to $500,000 should be held for temporary help. There is nothing in law that requires us to set it up separately, is there?

Mr. GRANT. No, sir. If the committee indicated in its report that any funds should be used only for temporary employment, versus regular full-time employment, of course, we would abide by the committee's determination.

Mr. WHITTEN. It is recognized that you have places where you have a heavy workload, and some degree of latitude should be retained.

PASSENGER MOTOR VEHICLES

Mr. GRANT. One further change on page 153, under "General provisions," having to do with passenger motor vehicles. We are proposing to purchase 492 passenger motor vehicles in 1965, of which 452 would be for replacement and 40 would be additional vehicles. I can furnish you the information on where each of these additional vehicles will be used. Eight of them are in Agricultural Research Service, 26 in the Soil Conservation Service, and 6 in the Statistical Reporting Service.

Mr. WHITTEN. What is the guide rule now as to when you can trade?

Mr. GRANT. We do not replace a car, unless it is wrecked or damaged, under 6 years of age, or 60,000 miles. This is in accordance with General Services Administration standards.

ADMINISTRATIVE EXPENSES, COMMODITY CREDIT CORPORATION

There is another change, Mr. Chairman, which does not appear in the committee print because it is associated with the budget amendments for 1965 submitted in House Document 240. This is in the item "Administrative expenses, Commodity Credit Corporation," the language of which appears on page 139 of the committee print. It is proposed to reduce the authorization for the CCC sales programs from $1 million to $945,000. This reflects the $55,000 saving the Foreign Agricultural Service has been able to make through improvements in the General Sales Manager's Office.

CURRENT EMPLOYMENT DATA

Mr. WHITTEN. Mr. Grant, at this point, please insert in the record the latest employment figures showing permanent, temporary, and part-time employment by agency.

(The information follows:)

U.S. DEPARTMENT OF AGRICULTURE

Monthly report of paid employment as of end of Feb. 29, 1964—Inside and outside District of Columbia metropolitan area [1]

Agencies	Full-time			Part time and intermittent	Total paid
	Permanent	Temporary	Total		
Total	76,257	2,639	78,896	17,770	96,666
Agricultural Research Service	16,594	651	17,245	761	18,006
Cooperative State Research Service	86	1	87	11	98
Extension Service	242	11	253	8	261
Farmer Cooperative Service	92		92		92
Soil Conservation Service	14,915	59	14,974	2,280	17,254
Economic Research Service	955	5	960	54	1,014
Statistical Reporting Service	1,112	18	1,130	160	1,290
Agricultural Marketing Service	7,391	74	7,465	802	8,267
Office of Milk Market Administrators	1,032	7	1,039	33	1,072
Foreign Agricultural Service	863	19	882	4	886
International Agricultural Development Service	58	4	62		62
Commodity Exchange Authority	115		115		115
Agricultural Stabilization and Conservation Service	6,065	145	6,210	259	6,469
Federal Crop Insurance Corporation	586	16	602	743	1,345
Rural Electrification Administration	965		965	11	976
Farmers Home Administration	4,953	77	5,030	[2] 6,234	11,264
Office of Rural Areas Development	33		33	1	34
Office of the Inspector General	788	6	794		794
Office of the General Counsel	345		345	8	353
Office of Information	114		114		114
Working capital fund	113	1	114		114
National Agricultural Library	166	1	167	1	168
Office of the Secretary	46		46		46
Office of Budget and Finance	65		65	1	66
Office of Plant and Operations	69		69		69
Working capital fund	136	1	137		137
Office of Management Appraisal and Systems Development	8		8		8
Working capital fund	168	2	170	36	206
Office of Personnel	77		77		77
Office of Hearing Examiners	7		7		7
Judicial Officer	8		8		8
Office of Management Services	332	2	334	1	335
Forest Service	17,758	1,539	19,297	6,362	25,659

[1] Includes employees in the 50 States, territories, possessions, and foreign countries.
[2] Includes 6,179 FHA State and county committeemen who performed service during the month.

AVAILABLE FUNDS AND OBLIGATIONS, 1964

Mr. WHITTEN. Also, insert a table showing amounts available for fiscal year 1964 and obligations as of the latest date by appropriation.

Mr. GRANT. All right, sir.

(The table follows:)

Amounts available and related obligations and balances, fiscal year 1964, as of Feb. 29, 1964

Agency or item	Amounts available [1]	Obligations through Feb. 29, 1964	Unobligated balance as of Feb. 29, 1964	Remarks
GENERAL ACTIVITIES				
Agricultural Research Service:				
Salaries and expenses:				
Research	$97,520,116	$57,419,896	$40,100,220	Research: The unobligated balance includes (1) $1,235,000 required to meet increased pay act costs for the remainer of the fiscalS year; (2) approximately $2,830,000 for staffing and equipping research laboratories and other new or expanded programs or activities as authorized for fiscal year 1964; (3) $515,000 in reserve for savings; (4) approximately $300,000 for issuance of purchase orders for supplies, materials, and equipment which had been requisitioned prior to Feb. 29, 1964; (5) approximately $1,045,000 for negotiation of research contracts; and (6) $1,418,009 authorized for construction projects in the 1963 appropriation act which has been placed in reserve.
Plant and animal disease and pest control	65,023,358	41,638,383	23,384,975	Plant and animal disease and pest control: Balance includes (1) $870,000 required to meet increased pay act costs for the remainder of the fiscal year; (2) approximately $300,000 for expansion of the hog cholera eradiction program and for strengthening plant quarantine inspection activities authorized for fiscal year 1964; (3) $160,000 in reserve for savings; and (4) $365,000 in reserve for contingencies under control of emergency outbreaks of insects and plant diseases.
Meat inspection	38,132,350	24,979,492	13,152,858	Balance includes $653,000 required to meet increased pay act costs for the remainder of the fiscal year.
Total, salaries and expenses	200,675,824	124,037,771	76,638,053	
Construction of facilities	1,564,778	748,746	816,032	Balance continues available for previously authorized construction projects.
Total, Agricultural Research Service [2]	202,240,602	124,786,517	77,454,085	
Cooperative State Research Service	41,639,000	41,013,033	625,967	Balance includes reserve of $3,220 for savings.
Extension Service:				
Payments to States and Puerto Rico	67,107,500	49,735,561	17,371,939	Balance includes reserve of $350,000 for savings.
Retirement costs for Extension agents	7,272,500	4,662,872	2,609,628	
Penalty mail	3,113,000	1,971,417	1,141,583	
Federal Extension Service	2,804,540	1,832,178	972,362	Balance includes reserve of $12,500 for savings.
Total, Extension Service	80,297,540	58,202,028	22,095,512	
Farmer Cooperative Service	1,205,589	776,331	429,258	Balance includes reserve of $1,130 for savings.

See footnotes at end of table.

Amounts available and related obligations and balances, fiscal year 1664, as of Feb. 29, 1964—Continued

Agency or item	Amounts available [1]	Obligations through Feb. 29, 1964	Unobligated balance as of Feb. 29, 1964	Remarks
GENERAL ACTIVITIES—continued				
Soil Conservation Service:				
Conservation operations	$108,545,473	$70,420,204	$38,125,269	Balance includes reserve of $198,300 for savings.
Watershed protection	72,069,757	28,713,849	43,355,908	
Flood prevention	33,012,439	11,767,888	21,244,551	Balance includes $1,734,079 for obligations to be incurred in subsequent years.
Great Plains conservation program	13,755,972	8,249,497	5,506,475	
Resource conservation and development	1,520,000	47,325	1,472,675	Balance includes $1,075,000 for obligations to be incurred in subsequent years.
Water conservation and utilization projects	127,414	----------	127,414	In reserve for obligations to be incurred in subsequent years.
Total, Soil Conservation Service	229,031,055	119,198,763	109,832,292	
Economic Research Service	10,448,501	6,827,329	3,621,172	Balance includes reserve of $14,530 for savings.
Statistical Reporting Service	12,690,500	7,953,346	4,737,154	
Agricultural Marketing Service:				
Marketing research and service	47,707,435	31,653,763	16,053,672	
Payments to States and possessions	1,500,000	1,240,073	259,927	
Special milk program	100,000,000	97,527,114	2,472,886	
School lunch program	182,002,000	180,740,462	1,261,538	
Total, Agricultural Marketing Service	331,209,435	311,161,412	20,048,023	
Foreign Agricultural Service [2]	21,884,500	12,901,908	8,982,592	Balance includes reserve of $85,000 for savings.
Commodity Exchange Authority	1,095,000	715,009	379,991	Balance includes reserve of $1,390 for savings.
Agricultural Stabilization and Conservation Service:				
Expenses	214,107,767	141,601,923	72,505,844	
Sugar Act program	78,000,000	78,000,000	----------	
Agricultural conservation program	265,000,000	265,000,000	----------	
Emergency conservation measures	3,861,223	938,623	2,922,600	
Conservation reserve program	294,123,733	294,000,000	123,733	
Corpland conversion program	11,350,000	11,350,000	----------	
Total, Agricultural Stabilization and Conservation Service	866,442,723	790,890,546	75,552,177	
Office of Rural Areas Development	121,000	73,181	47,819	
Office of the General Counsel	3,966,250	2,633,909	1,332,341	Balance includes reserve of $4,265 for savings.
Office of Information	1,696,000	1,173,538	522,462	Balance includes reserve of $1,390 for savings.

National Agricultural Library:				
Salaries and expenses	1,526,340	974,420	551,920	Balance includes reserve of $2,000 for savings.
Library facilities	450,000		450,000	
Total, National Agricultural Library	1,976,340	974,420	1,001,920	
General administration	3,920,250	2,591,944	1,328,306	Balance includes reserve of $3,220 for savings.
Forest Service:				
Forest protection and utilization (and cooperative range improvements):				
Forest land management	167,070,469	107,856,885	59,213,584	
Forest research	27,388,841	16,925,541	10,463,300	
State and private forestry cooperation	16,043,000	15,258,325	784,675	
Total, forest protection and utilization	210,502,310	140,040,751	70,461,559	Balance includes reserve of $366,100 for contingencies.
Forest roads and trails	168,461,396	42,690,374	125,771,022	Balance includes $90,000,000 for obligations to be incurred in subsequent years.
Access roads	1,121,243	138,625	982,618	
Acquisition of lands for national forests:				
Superior National Forest	1,141,695	390,980	750,715	
Wasatch National Forest	250,000	2,336	247,664	
Cache National Forest	51,105	16,647	34,458	
Special acts	70,000	1,526	68,474	
Total, acquisition of lands	1,512,800	411,489	1,101,311	
Assistance to States for tree planting	1,015,365	923,924	91,441	
Total, Forest Service	382,613,114	184,205,163	198,407,951	
Total, general activities	2,192,477,399	1,666,078,377	526,399,022	
Deduct amount for Forest Service	382,613,114	184,205,163	198,407,951	
Total, general activities (excluding Forest Service)	1,809,864,285	1,481,873,214	327,991,071	
CREDIT AGENCIES				
Rural Electrification Administration:				
Rural electrification loans	452,765,002	78,036,000	374,729,002	Balance includes $150,000,000 contingency authorization that may be used for electrification loans.
Rural telephone loans	112,743,731	35,970,000	76,773,731	
Total, Rural Electrification Administration loans (authorizations to borrow from Treasury).	565,508,733	114,006,000	451,502,733	Balance includes reserves of $25,508,733 to be carried forward to fiscal year 1965.
Salaries and expenses	11,247,000	7,273,404	3,973,596	Balance includes reserve of $90,000 for savings.
Total, Rural Electrification Administration	576,755,733	121,279,404	455,476,329	

See footnotes at end of table.

Amounts available and related obligations and balances, fiscal year 1964, as of Feb. 29, 1964—Continued

Agency or item	Amounts available [1]	Obligations through Feb. 29, 1964	Unobligated balance as of Feb. 29, 1964	Remarks
CREDIS AGENCIES—continued				
Farmers Home Administration:				
Direct loan account:				
Real estate loans	$60,000,000	$18,748,807	$41,251,193	
Operating loans	300,000,000	188,800,222	111,199,778	
Total, direct loan account	360,000,000	207,549,029	152,450,971	Excludes $12,500,000 estimated interest payments during fiscal year 1964 on borrowings from Treasury and $92,045,599 of anticipated collections for 1964 that are not to be used during this fiscal year.
Rural housing loans:				
Direct appropriation	25,000,000		25,000,000	
Loan authorization	196,900,095	80,964,876	115,935,219	
Total, rural housing loans	221,900,095	80,964,876	140,935,219	Balance includes $89,900,095 for obligations to be incurred in subsequent years.
Rural renewal	1,200,000	38,605	1,161,395	
Rural housing for elderly revolving fund	4,500,000		4,500,000	
Farm housing grants and loans	8,864,205	1,667,945	7,196,260	
Emergency credit revolving fund	87,722,425	35,645,363	52,077,062	Balance includes $19,502,425 for obligations to be incurred in subsequent years.
Agricultural credit insurance fund	197,800,000	152,715,182	45,084,818	Balance includes $1,100,000 for obligations to be incurred in subsequent years.
Salaries and expenses	40,630,900	25,666,626	14,964,274	Balance includes reserve of $66,900 for savings.
Total, Farmers Home Administration	922,617,625	504,247,626	418,369,999	
Total, credit agencies:				
Loan authorizations	1,122,408,828	402,519,905	719,888,923	
Appropriations and funds	376,964,530	223,007,125	153,957,405	
CORPORATIONS				
Federal Crop Insurance Coporation (operations and administration expenses).	10,565,415	6,912,248	3,653,167	Balance includes reserve of $12,000 for savings.
Commodity Credit Corporation: Limitation on administrative expenses.	41,650,000	25,521,590	16,128,410	Balance includes reserve for contingencies of $3,174,175 and estimated unobligated balance for sales expansion limitation of $182,000.
Total, corporations	52,215,415	32,433,838	19,781,577	

FOREIGN ASSISTANCE PROGRAMS				
Public Law 480	1,719,966,000	1,333,947,501	386,018,499	Balance includes $10,015,000 for obligations to be incurred in subsequent years.
International Wheat Agreement	86,218,000	86,218,000		
Bartered materials for supplemental stockpile	82,860,000	75,360,000	7,500,000	
Total, foreign assistance programs	1,889,044,000	1,495,525,501	393,518,499	
Total (excluding Forest Service)	5,250,497,058	3,635,359,583	1,615,137,475	
PERMANENT AUTHORIZATIONS				
Removal of surplus agricultural commodities (30 percent of customs receipts).	615,901,460	108,908,531	506,992,929	Balance includes reserve of $100,000 for savings under administrative expenses.
Perishable Agricultural Commodities Act fund	977,404	545,146	432,258	Balance includes $77,404 for obligations to be incurred in subsequent years.
Payments to school funds, Arizona and New Mexico, national forest receipts.	100,413	100,413		
Roads and trails for States, national forest receipts	12,000,883	12,000,883		
Expenses, brush disposal	16,680,984	6,102,572	10,578,412	Balance includes $7,500,000 for obligations to be incurred in subsequent years.
Forest fire prevention	61,900	10,271	51,629	Balance includes $31,900 for obligations to be incurred in subsequent years.
Restoration of forest lands and improvements	121,481	16,807	104,674	
Payments to Minnesota (Cook, Lake, and St. Louis Counties)	130,986	130,986		
Payments to counties, national grasslands	455,379	455,379		
Payments to States and territories from the national forest receipts	29,993,959	29,993,959		
Animal disease laboratory facilities, (ARS)	43,534	31,694	11,840	
Total, permanent authorizations	676,468,383	158,296,641	518,171,742	

[1] Represents amounts apportioned through Mar. 26, 1964, and includes reimbursements, transfers, and unobligated balances of continuing appropriations, but excludes proposed supplemental funds.

[2] As of Jan. 31, 1964, the status of appropriations for purchase of foreign currencies under special foreign currency programs was as follows:

	Available	Obligations (Jan. 31, 1964)	Balances (Jan. 31, 1964)
Agricultural Research Service	$22,250,907	$4,342,571	$17,908,336
Foreign Agricultural Service	6,914,679	930,283	5,984 396
Total	29,165,586	5,272,854	[a] 23.892,732

[a] Balance includes $16,253,586 for obligations to be incurred in subsequent years.

YEAREND EMPLOYMENT

Mr. WHITTEN. Also, Mr. Grant, please include a table showing total Department employment as follows:

First column, budget estimate as of June 30, 1965; second, budget estimate as of June 30, 1964; third, actual number on June 30, 1963; fourth, actual number June 30, 1962.

Mr. GRANT. All right.

Mr. WHITTEN. Also insert a table showing the latest employment targets for 1964 and 1965 for each agency. I would like to have the figures for each agency further broken down to show employment under direct appropriations to the agency, employment under other Department of Agriculture appropriations and funds, and employment under funds from outside the Department.

(The information follows:)

U.S. DEPARTMENT OF AGRICULTURE

Employment as of June 30, 1962 and 1963, and estimated employment as of June 30, 1964 and 1965

[Includes employment under all funds—appropriations, transfers, trust funds, and fees collected for services performed, and includes employment under proposed supplemental appropriations and proposed legislation in fiscal years 1964 and 1965]

	1962	1963	1964 (estimated)	1965 (estimated)	Increase (+) or decrease (−), 1965 compared with 1964
Agricultural Research Service	18,692	19,430	19,723	19,776	+53
Cooperative State Research Service	82	93	98	101	+3
Extension Service	242	256	264	260	−4
Farmer Cooperative Service	86	94	96	97	+1
Soil Conservation Service	18,276	18,427	18,502	18,091	−411
Economic Research Service	1,042	1,099	1,158	1,158	
Statistical Reporting Service	1,738	2,426	2,600	3,083	+483
Agricultural Marketing Service	7,570	7,840	8,170	8,013	−157
Office of Milk Market Administrators	1,247	1,133	1,150	1,135	−15
Foreign Agricultural Service	834	887	910	900	−10
International Agricultural Development Service	60	66	72	72	
Commodity Exchange Authority	121	119	118	123	+5
Agricultural Stabilization and Conservation Service	6,876	6,655	6,614	6,240	−374
Federal Crop Insurance Corporation	1,159	1,076	1,148	1,150	+2
Rural Electrification Administration	1,001	966	986	986	
Farmers Home Administration	10,528	10,336	10,470	10,206	−264
Office of Rural Areas Development	20	31	35	35	
Office of the Inspector General	795	892	857	860	+3
Office of the General Counsel	360	338	339	340	+1
Office of Information	252	239	244	245	+1
National Agricultural Library	163	171	185	187	+2
Office of the Secretary	46	56	49	51	+2
Office of Budget and Finance	61	67	67	67	
Office of Plant and Operations	217	227	228	229	+1
Office of Management Appraisal and Systems Development	27	154	260	298	+38
Office of Personnel	73	77	83	83	
Office of Hearing Examiners	7	7	7	7	
Judicial Officer	9	9	9	9	
Office of Management Services	305	321	332	352	+20
Forest Service	38,622	38,996	41,283	40,939	−344
Total	110,511	[1] 112,488	116,057	115,093	−964

[1] In addition, there were 3,291 employees under the accelerated public works program of which 3,289 were in the Forest Service and 2 in the Soil Conservation Service.

NOTE.—Amounts for 1962 through 1964 are adjusted for comparability with the organization structure proposed in the 1965 budget estimates.

End-of-year employment targets, fiscal years 1964 and 1965

	Estimated June 30, 1964			Estimated June 30, 1965		
	Permanent positions	Other	Total	Permanent positions	Other	Total
Agricultural Research Service:						
Direct appropriations	16,938	1,952	18,890	17,084	1,993	19,077
Other USDA funds	357	117	474	359	131	490
Nondepartmental funds	304	55	359	164	45	209
Total, Agricultural Research Service	17,599	2,124	19,723	17,607	2,169	19,776
Cooperative State Research Service: Direct appropriations	96	2	98	99	2	101
Extension Service:						
Direct appropriation	226	4	230	224	3	227
Other USDA funds	1		1	1		1
Nondepartmental funds	32	1	33	31	1	32
Total, Extension Service	259	5	264	256	4	260
Farmer Cooperative Service:						
Direct appropriation	92		92	93		93
Nondepartmental funds	4		4	4		4
Total, Farmer Cooperative Service	96		96	97		97
Soil Conservation Service:						
Direct appropriations	14,790	2,599	17,389	14,823	2,560	17,383
Other USDA funds	334	452	786	106	251	357
Nondepartmental funds	310	17	327	330	21	351
Total, Soil Conservation Service	15,434	3,068	18,502	15,259	2,832	18,091
Economic Research Service:						
Direct appropriation	910	69	979	907	68	975
Other USDA funds	84	14	98	89	17	106
Nondepartmental funds	76	5	81	72	5	77
Total, Economic Research Service	1,070	88	1,158	1,068	90	1,158
Statistical Reporting Service:						
Direct appropriation	1,046	1,352	2,398	1,096	1,785	2,881
Other USDA funds	186		186	186		186
Nondepartmental funds	16		16	16		16
Total, Statistical Reporting Service	1,248	1,352	2,600	1,298	1,785	3,083
Agricultural Marketing Service:						
Direct appropriations	4,796	364	5,160	4,661	342	5,003
Other USDA funds	71	11	82	71	10	81
Nondepartmental funds [1]	3,916	162	4,078	3,910	154	4,064
Total, Agricultural Marketing Service	8,783	537	9,320	8,642	506	9,148
Foreign Agricultural Service:						
Direct appropriations	724	31	755	718	31	749
Other USDA funds	131	4	135	127	4	131
Nondepartmental funds	20		20	20		20
Total, Foreign Agricultural Service	875	35	910	865	35	900
International Agricultural Development Service: Nondepartmental funds	63	9	72	63	9	72
Commodity Exchange Authority: Direct appropriation	118		118	123		123
Agricultural Stabilization and Conservation Service:						
Direct appropriations	5,598	559	6,157	5,307	511	5,818
Other USDA funds	241	24	265	178	18	196
Nondepartmental funds	175	17	192	205	21	226
Total, Agricultural Stabilization and Conservation Service	6,014	600	6,614	5,690	550	6,240
Federal Crop Insurance Corporation: Direct appropriation (including corporate funds)	626	522	1,148	631	519	1,150
Rural Electrification Administration: Direct appropriation	979	7	986	979	7	986
Farmers Home Administration:						
Direct appropriations	5,047	5,318	10,365	5,381	4,685	10,066
Other USDA funds	28		28	63		63
Nondepartmental funds	77		77	77		77
Total, Farmers Home Administration	5,152	5,318	10,470	5,521	4,685	10,206

See footnotes at end of table.

End-of-year employment targets, fiscal years 1964 and 1965—Continued

	Estimated June 30, 1964			Estimated June 30, 1965		
	Permanent positions	Other	Total	Permanent positions	Other	Total
Office of Rural Areas Development:						
Direct appropriation	8		8	8		8
Nondepartmental funds	27		27	27		27
Total, Office of Rural Areas Development	35		35	35		35
Office of the Inspector General: Direct appropriation	857		857	860		860
Office of the General Counsel: Direct appropriation	336	3	339	337	3	340
Office of Information:						
Direct appropriation	114	4	118	114	5	119
Other USDA funds	118	3	121	118	3	121
Nondepartmental funds	5		5	5		5
Total, Office of Information	237	7	244	237	8	245
National Agricultural Library:						
Direct appropriation	170	3	173	171	4	175
Other USDA funds	1		1	1		1
Nondepartmental funds	11		11	11		11
Total, National Agricultural Library	182	3	185	183	4	187
Office of the Secretary:						
Direct appropriations	45		45	47		47
Nondepartmental funds	4		4	4		4
Total, Office of the Secretary	49		49	51		51
Office of Budget and Finance: Direct appropriation	67		67	67		67
Office of Plant and Operations:						
Direct appropriation	72		72	72		72
Other USDA funds	156		156	157		157
Total, Office of Plant and Operations	228		228	229		229
Office of Management Appraisal and Systems Development:						
Direct appropriation	9		9	9		9
Other USDA funds	251		251	289		289
Total, Office of Management Appraisal and Systems Development	260		260	298		298
Office of Personnel:						
Direct appropriation	73		73	73		73
Other USDA funds	10		10	10		10
Total, Office of Personnel	83		83	83		83
Office of Hearing Examiners: Direct appropriation	7		7	7		7
Judicial officer: Direct appropriation	9		9	9		9
Office of Management Services:						
Direct appropriation	290		290	298		298
Other USDA funds	36		36	48		48
Nondepartmental funds	6		6	6		6
Total, Office of Management Services	332		332	352		352
Total, above items:						
Direct appropriations	54,043	12,789	66,832	54,198	12,518	66,716
Other USDA funds	2,005	625	2,630	1,803	434	2,237
Nondepartmental funds	5,046	266	5,312	4,945	256	5,201
Total	61,094	13,680	74,774	60,946	13,208	74,154
Forest Service:						
Direct appropriations	19,154	21,283	40,437	19,513	20,684	40,197
Other USDA funds	256	126	382	261	111	372
Nondepartmental funds	248	216	464	225	145	370
Total, Forest Service	19,658	21,625	41,283	19,999	20,940	40,939
Total:						
Direct appropriations	73,197	34,072	107,269	73,711	33,202	106,913
Other USDA funds	2,261	751	3,012	2,064	545	2,609
Nondepartmental funds	5,294	482	5,776	5,170	401	5,571
Total, U.S. Department of Agriculture [2]	80,752	35,305	116,057	80,945	34,148	115,093

[1] Includes employment of the Office of Milk Market Administrators.
[2] Represents limitations on total employment for the Department as a whole, as of June 30, 1964 and 1965. The figures shown for individual agencies reflect current estimates and are subject to change to meet conditions as the year progresses.

NOTE.—"Direct appropriations" represents employment of the agency paid from direct appropriations for its programs. "Other USDA funds" includes employment of the agency paid from funds received from other appropriations and agencies in the Department by allotment or reimbursement. "Nondepartmental funds" includes all employment financed from funds received from other Federal agencies, State and local governments, and other organizations or individuals.

SUPPLEMENTAL ESTIMATES FOR 1964 AND BUDGET AMENDMENTS, 1965

Mr. WHITTEN. Also, at this point, we will insert House Document ment 203 and House Document 284, which cover certain 1964 supplemental requests submitted to the committee for the Department of Agriculture, together with pertinent parts of the justification submitted by the Department.

And finally, we will insert House Document 240, which contains certain reductions in the 1965 estimates for various items included for the Department of Agriculture.

(The material referred to follows:)

[House of Representatives, 88th Cong., 2d sess., Doc. No. 203]

COMMUNICATION FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING PROPOSED NEW OBLIGATIONAL AUTHORITY IN THE AMOUNT OF $2,225,532,300 FOR THE FISCAL YEAR 1964 FOR VARIOUS DEPARTMENTS AND AGENCIES. IN ADDITION, OTHER PROPOSALS NOT INCREASING NEW OBLIGATIONAL AUTHORITY ARE MADE TO PROVIDE FOR THE TRANSFER OF $5,388,000 BETWEEN APPROPRIATIONS AND FOR AN INCREASE IN LIMITATION IN THE AMOUNT OF $120,000

THE WHITE HOUSE,
Washington, D.C., January 21, 1964.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIR: I have the honor to transmit herewith for the consideration of the Congress proposed new obligational authority in the amount of $2,225,532,300 for the fiscal year 1964 for various departments and agencies. In addition, other proposals not increasing new obligational authority are made to provide for the transfer of $5,388,000 between appropriations and for an increase in limitation in the amount of $120,000.

These proposals and those transmitted in the last session and now pending in the Congress are largely to provide funds for needed programs authorized by recent legislation and for other urgent requirements of the Government. I trust that the Congress will be able to act promptly on these requests.

The details of these proposed appropriations and provisions, the necessity therefor, and the reasons for their submission are set forth in the attached letter from the Director of the Bureau of the Budget, with whose comments and observations thereon I concur.

Respectfully yours,

LYNDON B. JOHNSON.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 20, 1964.

THE PRESIDENT,
The White House.

SIR: I have the honor to submit herewith for your consideration proposed supplemental appropriations and provisions for the fiscal year 1964 in the following amounts:

	New obligational authority	Proposals not increasing new obligational authority
Legislative branch	$221,900	
The judiciary	73,900	
Executive branch	2,225,236,500	
Transfers between appropriations		$5,388,000
Increases in limitations		120,000
Total, new obligational authority	2,225,532,300	

The transmittal of these proposed supplemental appropriations should be considered as a part of your transmittal to the Congress of your 1965 budget. Each of the requests for appropriations for the executive branch contained herein is listed as a specific item within the 1964 totals as shown in the 1965 budget. None of the requests exceeds the amount shown in the budget; some of the requests, in fact, have been reduced below the budgeted amount, the total of such reductions amounting to about $5 million.

Moreover, all employment in the executive branch which would be financed out of these appropriations is already included in the employment totals as shown in the budget.

In other words, these supplemental requests are a part of your budget, not an addition thereto.

Of the total new obligational authority for the executive branch, $1,564 million is to carry out legislation enacted at the last session of the Congress. The principal amounts in this category are $865 million for the pay increases granted by the Uniformed Services Pay Act of 1963 which became effective October 1, 1963, and $615 million for a number of education programs, including $267 million for loans and grants to assist in the construction of facilities for higher education and $253 million for assistance to school districts in areas affected by Federal activities. The remaining $86 million would provide funds for changes in the manpower development and training program, for the beginning of a program to rehabilitate the territory of Guam, and for a number of other needs resulting from legislation enacted at the last session of Congress.

The total also includes requests, adding to $535 million, for congressional reconsideration of reductions made in the President's original 1964 recommendations. The requested restorations are as follows:

$234 million to maintain the average military strength approved by the Congress and to meet requirements for retired pay. The possible need for provision of additional funds for this purpose was recognized in the conference report on the 1964 Department of Defense Appropriation Act.

$141 million to permit the development and procurement of long leadtime items needed to achieve the goal of a manned lunar landing within this decade.

$160 million for public assistance grants to meet the requirements for payments to beneficiaries.

Included in the request is $74 million to meet uncontrollable and emergency requirements such as those for the payment of unemployment compensation benefits for Federal employees and ex-servicemen, the fighting of fires in the national

forests, parks, and rangelands, the payment of wage increases set by wage boards, and for payments to sugar producers as required by the Sugar Act.

The remaining $50 million is largely for the purchase from the Treasury of $25 million of Japanese yen for the establishment of a binational cultural foundation and $12 million of excess foreign currencies to assist in the preservation of the ancient temples of Abu Simbel. These are transactions within the Government and do not affect its budgetary position.

The proposed supplemental appropriations and provisions for the executive branch have been carefully reviewed, and I recommend their transmission to Congress in the amounts specified. Those submitted by the legislative branch and the judiciary have been included without change.

Respectfully yours,

KERMIT GORDON,
Director of the Bureau of the Budget.

"DEPARTMENT OF AGRICULTURE

"AGRICULTURAL RESEARCH SERVICE

"SALARIES AND EXPENSES

"For an additional amount for 'Salaries and expenses,' for 'meat inspection,' $590,000."

Of this proposed supplemental appropriation, $90,000 is needed because of a salary reclassification of meat inspector positions and $500,000 because of a greater workload than was estimated in the 1964 budget request.

"AGRICULTURAL MARKETING SERVICE

"MARKETING RESEARCH AND SERVICE

"For an additional amount for 'marketing research and service,' $173,000.

This supplemental appropriation is requested to provide for the costs of a reclassification of poultry inspector positions.

"AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

"EXPENSES, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

"For an additional amount for 'Expenses, Agricultural Stabilization and Conservation Service,' $13,600,000."

This supplemental appropriation is requested to meet the cost of administering the feed grain program for the 1964 crop. Legislation authorizing this program was enacted subsequent to transmittal of the 1964 budget.

"SUGAR ACT PROGRAM

"For additional amount for 'Sugar Act Program,' $6,400,000 to remain available until June 30, 1965."

This supplemental appropriation is requested to provide $6,400,000 for making payments to sugar producers for greater sugar production than was anticipated.

AGRICULTURAL RESEARCH SERVICE

(H. Doc. 203)

Salaries and expenses, 1964

For approximately 5 months from Feb. 1, 1964:	
Appropriation to date	[1] $183,876,700
Obligations to Dec. 31, 1963	[2] $86,503,647
Expenditures to Dec. 31, 1963	[2] $70,391,721
Budget estimate, next fiscal year (1965)	$195,407,000
Employment:	
Average number latest estimate for 1964	17,516
Average number involved this estimate	69
Actual employment Dec. 31, 1963	18,293

[1] Excludes $1,000,000 reappropriation under "Special fund."
[2] Under 1964 new obligational authority.

PROPOSED LANGUAGE

For an additional amount for "Salaries and expenses," for "Meat inspection," $590,000.

EXPLANATION OF LANGUAGE

The proposed language would appropriate an additional $590,000 for fiscal year 1964 for (*a*) meeting mandatory increased salary costs for certain nonveterinary meat inspection personnel as required under the Classification Act of 1949, as amended, and (*b*) strengthening the inspection force to meet increased needs for mandatory Federal inspection of meat and meat food products shipped through interstate or foreign commerce.

PURPOSE AND NEED FOR SUPPLEMENTAL FUNDS

The Civil Service Commission has approved the issuance of revised position classification standards for certain nonveterinary meat inspectors. Under the Classification Act of 1949, as amended, Federal employees are entitled to be paid at the salary rate commensurate with approved position classification standards. The Department is required to effect the changes in grade levels for those nonveterinary meat inspection personnel affected by the revised position standards. The revised classification standards were distributed by the Commission in August 1963. The Department expects to implement the new standards about March 29, 1964.

Under the Meat Inspection Act, Federal inspection is mandatory for meat and meat food products shipped through interstate or foreign commerce. The constant rise in the number of establishments and cities and towns in which they are located has greatly increased the need for inspectors to provide the required service. The Department must provide the inspection service for meatpacking establishments which have met certain qualifications relating to plant facilities, sanitation, etc.

The estimated number of establishments requiring Federal inspection during fiscal year 1964 is now expected to exceed previous expectations as set forth in the 1964 budget. The present inspection force is already understaffed and it is necessary, therefore, to request supplemental funds to provide the additional inspectors needed for the expanded workload.

(*a*) *Increase of $90,000 to meet mandatory costs of revised salary rates for certain nonveterinary inspectors*

Under the Classification Act of 1949, as amended, the Civil Service Commission is responsible for determining the proper classification for job positions of Federal employees. The appropriate grade level for Federal employees is determined through the application of position "standards" which are issued by the Commission.

The salary rates paid to Federal employees must be made in accordance with the Classification Act of 1949, as amended.

To assure the accuracy of position standards, the Civil Service Commission maintains a review of job requirements to determine whether the responsibilities and work performance are commensurate with the salary rates for various grade levels. Ordinarily, such a review is conducted every 5 or 6 years. During 1962, the Civil Service Commission undertook a review of classification standards for food inspectors. This job series involves personnel performing meat inspection work. Representatives of the Department were assigned to work with the Commission to review field operations. Based on this review of job duties, the Civil Service Commission has approved the issuance of revised position standards for certain meat inspection positions to replace those issued in 1957 as a result of a similar review. The new classification standards were distributed by the Commission in August 1963, and agencies are required to implement them. It is expected that reclassification actions pursuant to the new standards would be effective March 29, 1964.

The revised standards give greater recognition to the responsibilities involved in inspecting complex meat and meat food products and will require reclassification from GS–7 to GS–8 of many nonveterinary meat inspectors performing such inspection. Currently 703 nonveterinary meat inspector positions must be reclassified. Based on salary rates effective January 5, 1964, under Public Law 87–793, the increased cost of the revised position standards for fiscal year 1964, effective on March 29, 1964, is estimated at $90,000 as follows:

Annual salaries

From—	To—	Number	At old rate	At new rate	Increased annual cost
GS-7	GS-8	703	$4,700,000	$5,021,000	$321,000
Less: Lapse based on increased rates being effected Mar. 29, 1964					−232,000
Subtotal					89,000
Personnel benefits					6,000
Deduct portion due to change in pay rates during year					−7,500
Regular pay above 52-week base					2,500
Total					90,000

The salary and related costs of inspection personnel represents approximately 96 percent of total appropriated funds for meat inspection activities. Thus, the number of man-years of inspection personnel employed is directly related to the amount of funds appropriated for the meat inspection program. In the absence of an increase in appropriations to meet the costs of the mandatory reclassification, it would be necessary to reduce the already understaffed inspection force during the last quarter of fiscal year 1964.

Approximately 82 percent of the commercial meat production is federally inspected in meatpacking establishments scattered throughout the country. The present inspection force is seriously taxed to remain abreast of the ever-increasing workload. Any absorption of the increased salary costs by a reduction in force would curtail the level of inspection activity at a time when there is urgent need for additional inspectors to meet the ever-expanding workload resulting from a continued increase in the number of establishments operating under Federal meat inspection in a growing number of cities and towns.

(*b*) *Increase of $500,000 for additional inspectors to strengthen meat inspection force to meet constant increase in mandatory meat inspection workload*

The needs for Federal meat inspection have increased constantly in recent years. The following table reflects the increase in establishments requiring Federal meat inspection and the number of widely dispersed cities and towns in which these are located:

At end of fiscal year	Establishments		Cities and towns	
	Number	Percent increase over prior year	Number	Percent increase over prior year
1959	1,334		546	
1960	1,396	4.6	572	4.8
1961	1,451	3.9	599	4.7
1962	1,511	4.1	623	4.0
1963	1,590	5.2	672	7.9
1964 (estimated)	1,696	6.7	700	4.2

In the 1964 budget estimates it was estimated that inspection would be provided at 1,633 establishments in 700 cities and towns. By December 31, 1963, there were already 1,627 establihments in 683 cities and towns. Funds requested in the 1964 budget to finance this workload level were reduced by $571,000 in the 1964 Agricultural Appropriation Act. Based on continued rise in the numbers of establishments, it is estimated that 1,696 establishments will require inspection by June 30, 1964. It would not be possible to provide the additional inspectors needed in 1964 without supplemental funds. In the absence of supplemental funds, it would be necessary to adjust the volume and rate of production at meatpacking establishments under Federal inspection in line with the meat inspection program's ability to inspect. As a result, plant facilities could not be used to maxmum efficiency; there would be disruption in normal purchases of farm

animals for slaughter; and meatpacking plants would be forced to reduce work schedules for their employees in order to conform to the schedules of available inspectors.

The Meat Inspection Division continues to utilize every means possible to handle the additional workload by having experienced supervisory program officials assign the minimum inspectors needed to handle plant production operations throughout the Meat Inspection Service. Inspectors are assigned to establishments based on such requirements as type of production operation; amount of product per week; number of hours of plant operation per week; and number of days of plant operation per year. Experienced inspectors in charge of field operations are responsible for attaining full utilization of available inspectors based on a firsthand knowledge of the workload requirements in each individual plant.

The continued rise in the number of establishments requiring Federal inspection is indicative of the decentralization of meatpacking operations which has taken place in recent years. This trend has been prompted by a number of factors including the economic advantages of locating establishments in rural locations closer to the sources of supply; advances in the transportation industry which permit shipment on short notice of meat and meat food products under proper refrigeration; reduced operating costs for plant and labor; favorable tax advantages offered by local communities; and the need to install modern equipment for mechanized production operations as replacements for the older obsolete equipment.

In order to maintain an economic level of operation in a highly competitive industry, many of the widely dispersed establishments must engage in interstate or foreign commerce. To avoid violation of the act, such plants must operate under Federal inspection.

To meet the inspection needs in fiscal year 1964, it is estimated that an additional $500,000 will be required to provide an additional 69 man-years to meet the expanded workload.

Agricultural Marketing Service

(H. Doc. 203)

Marketing research and service, 1964

Request (for approximately 3 months from Mar. 29, 1964)	$173,000
Appropriation to date	$42,498,975
Obligations to Nov. 30, 1963	$18,898,331
Expenditures to Nov. 30, 1963	$15,147,741
Budget estimate next fiscal year	$43,975,000
Employment:	
Average number current appropriation	4,616
Average number involved this estimate	
Actual employment Nov. 30, 1963	5,330

PROPOSED LANGUAGE

For an additional amount for "Marketing research and service," $173,000.

EXPLANATION OF LANGUAGE

The proposed language would appropriate an additional $173,000 for fiscal year 1964 to meet the increased cost of carrying out the provisions of the Poultry Products Inspection Act.

PURPOSE AND NEED FOR SUPPLEMENTAL FUNDS

The additional $173,000 requested is to cover increased salary costs in the compulsory poultry inspection program resulting from revised classification standards for nonveterinarian poultry inspector positions.

The Civil Service Commission has issued revised classification standards raising the grade level pattern of nonveterinarian poultry inspector positions. There are approximately 1,500 inspectors in the Poultry Inspection Service who will be affected by this action.

In January 1962, the Civil Service Commission initiated a survey study of the existing published position classification standards for meat and poultry inspectors. The survey, completed in September 1962, indicated that the cur-

rently assigned responsibilities of the nonveterinarian poultry inspectors warrant a revision in the grade classification of these positions to a level commensurate with other positions in the Government service with similar responsibilities.

The Poultry Products Inspection Act enacted August 28, 1957 prohibits movement of poultry or poultry products in interstate or foreign commerce unless such poultry has been inspected by the U.S. Department of Agriculture. To carry out this requirement of law, a substantial number of nonveterinarian poultry inspectors are used. Under the classification standards issued in 1957, as interpreted, these positions were required to be established in three grades—GS–5, 6, and 7. The GS–5 is a trainee position. At the end of the training period the employee is assigned to full-line inspection work or is separated. The grade 6 is the line inspector, responsible for the bird-by-bird examination required under the act. This examination must necessarily include the whole carcass and all of its parts. In addition, as time permits he may also perform ante mortem and sanitation inspection. In plants where a veterinarian inspector is not readily available at all times, the grade 7, inspector in charge, supervises one or more line inspectors and is delegated complete responsibility for dealing with plant management.

The Civil Service Commission has now concluded that, based on the work assignments as presently constituted, the line inspector should be classified at GS–7. Although the GS–5 will continue as a trainee position, the promotion, upon completion of training, to a full-line inspector will be to grade 7 instead of grade 6.

Since GS–7, as described in the revised standards, becomes the full operating level for nonsupervisory line inspectors, the positions of those nonveterinarian inspectors who are in charge of this work—the inspector in charge (eviscerating)—will be reclassified to grade GS–9.

The revised classification standards released August 27, 1963, specifically describe these poultry inspector positions. Experience gained from the poultry inspection operation since its inception has clearly demonstrated that the present method of operation in the plants is the most efficient and economical. Therefore, under title IV of the Classification Act of 1949, these positions, operating as described in the revised standards, must be reclassified to the grades GS–7 and GS–9 levels.

The presently budgeted staff of nonveterinarian poultry inspectors in 1964, includes about 1,200 full-time and 250 seasonal and part-time positions which will be affected by the revised grade level pattern described in the revised standards. Assuming an effective date of March 29, 1964, an additional $173,000 is needed.

Absorption of the increased costs resulting from the reclassification cannot be met within the funds budgeted without serious impairment to the mandatory poultry products inspection service. If additional funds are not provided to cover the higher costs of these positions, the poultry inspection staff would have to be reduced and service denied some of the poultry processing plants. Lacking official inspection of their products, these plants could be forced out of business with consequent disruption to the marketing of poultry and poultry products. Further, lack of inspection could expose consumers to health hazards of unwholesome poultry.

Agricultural Stabilization and Conservation Service

(H. Doc. 203)

Expenses, Agricultural Stabilization and Conservation Service

Request (for 2 months from May 1, 1964)	$13,600,000
Appropriation to date (including CCC transfers)	$201,434,500
Obligations to Dec. 31, 1963	$97,454,847
Expenditures to Dec. 31, 1963	$88,030,878
Employment:	
Average number latest estimate	6,940
Average number involved in this estimate	None
Actual employment Dec. 31, 1963	6,808

PROPOSED LANGUAGE

For an additional amount for "Expenses, Agricultural Stabilization and Conservation Service," $13,600,000.

PURPOSE AND NEED FOR SUPPLEMENTAL FUNDS

The purpose of this request is to increase the amount appropriated for this item to provide $13,600,000 in fiscal year 1964 for the 1964 feed grain program pursuant to the provisions of the Feed Grain Act of 1963.

The 1964 feed grain program will reduce surplus stocks of feed grains and reduce costs to the taxpayers. Changes in stocks of feed grains estimated to result from operations under the authorized program will bring total stocks down to levels considered desirable. Reducing burdensome stocks will result in decreased carrying costs to the Federal Government for storage, handling, transportation, and interest.

The supplemental estimate would provide necessary funds in fiscal year 1964 for the administration of the 1964 feed grain program pursuant to the provisions of the Feed Grain Act of 1963, approved May 20, 1963. In the absence of legislation authorizing a program for the 1964 crop of feed grains, no funds were included in the 1964 estimates for carrying out such a program. The funds would be used at the national, State, and county levels to carry out activities similar to those financed by advances of Commodity Credit Corporation capital funds in fiscal years 1961, 1962, and 1963, such as establishing and adjusting base acreages, productivity indexes, and payment rates; notifying producers of program provisions and base acreages; handling appeals, answering inquiries, and providing assistance to farmers; conducting signup, processing applications for advance payment, and issuing sight drafts; measuring farms, computing acreage, and checking use of diverted acreage; and handling noncompliance cases.

Background

The principal objectives of the feed grain program are (1) to raise farm income by assuring fairer prices for feed grain producers and by providing a basis of stability for livestock prices, (2) to further reduce surplus stocks of feed grains, and (3) to reduce costs to taxpayers.

At the end of the marketing year for 1960 crops, feed grain stocks were at a record high of 84.7 million tons, as compared with a desirable level of about 45 to 50 million tons. Feed grain stocks were reduced to about 62 million tons at the end of the marketing year for 1962 crops. Due to high yields in 1963 and increased acreages on nonparticipating farms, total production of feed grains was about equal to utilization. Consequently, carryover stocks will not be reduced in the 1963–64 marketing year. It is estimated that accomplishments under the newly authorized 1964 feed grain program will continue the substantial progress toward achieving the national goal of around a 45-million-ton carryover of feed grains.

Approximately 1.2 million feed grain producers signed up to participate in the 1961 program and diverted 25.2 million acres from the production of feed grains to conservation uses. Under the 1962 program, some 1.3 million producers signed up and diverted 28.2 million acres and in 1963 about 1.2 million producers have signed up to divert 24.5 million acres.

If the feed grain programs had not been in effect, production would have continued to far exceed requirements and would have added to the burdensome stocks and the resultant increased costs to the Government of storage, handling, transportation, and interest.

The estimate assumes that farm participation under the 1964 feed grain program will be at about the same level as in 1963. It is estimated that $13,600,000 will be required in fiscal year 1964 to administer the program. A description of the major administrative functions required, as well as a comparison with the 1963 program follows.

Comparison of the 1963 and 1964 programs

The 1964 feed grain program is basically the same as in 1963:

It is voluntary.

It again covers corn, grain sorghum, and barley in a combined base.

Participating farmers may again qualify for diverted-acre payments and a price-support combination of loans and supplemental payments-in-kind.

In other respects, however, the 1964 program is an improvement over the 1963 program: The maximum feed grain acreage which an individual producer may

divert has been raised to 50 percent (from 40 percent) of the base. The average payment rate per acre for diverting 40 percent or more also will be substantially higher than in 1963.

This encouragement of additional acreage diversion, with its consequent stabilizing influence on feed grain prices, will help shield producers of wheat as well as of feed grains from the possible effects of larger 1964 wheat plantings.

Participation choices

The program affords each feed grain producer who takes part a choice of the number of acres of cropland he chooses to take out of feed grain production and to use for conservation. The choices are—

1. The smallest number of acres of cropland that can be diverted from feed grain production for payment is 20 percent of the feed grain base for the farm.
2. The largest number of acres that can be taken out of production for diversion payment and used for conservation depends on the size of the farm's total feed grain base. If the base is 25 acres or less, the base becomes the largest acreage that can be taken out of production for payment. If the farm feed grain base is more than 25 acres, the largest acreage that can be taken out of production for payment is 25 acres or 50 percent of the base, whichever is larger.

Farm feed grain base

The feed grain base will be figured by the same method used in 1963. The base will be determined on the basis of the average number of acres on which feed grains were produced in 1959 and 1960. The feed grain acreage included in the base for a farm includes corn, barley, and grain sorghum. The feed grain base established for a farm by the ASC county committee is the starting point in computing the number of acres diverted.

On farms that produce more than one of the feed grains—barley and corn, for example, the total feed grain base will include a corn base and a barley base. On such farms the operator who takes part in the program may choose to divert acreage from either barley or corn, or to divert part of the acreage from barley and part from corn. The payment rate will be computed on the basis of the kind of feed grain crop from which acreage is actually diverted on the farm.

Diversion payment

For each farm two diversion payment rates per acre will be figured for each of the three eligible feed grains—barley, corn, and grain sorghum.

One of these, the lower rate, will be based on the established normal yield for the farm times one-fifth of the county total price support rate (price-support loan rate plus the price-support payment rate).

The higher rate is based on the established normal yield for the farm times one-half the total price support rate for the county. If less than 40 percent of the base is diverted the lower rate will apply to the number of acres equal to 20 percent of the feed grain base and the higher rate to the acreage diverted in excess of 20 percent.

If the acreage diverted is equal to 40 percent of the base or more this higher rate of diversion payment applies to the entire acreage diverted. A provision of law, however, limits the diversion payment to no more than 20 percent of the fair market value of the land diverted in 1964.

National average support rates

The price support payment on participating farms is made on the basis of the established normal yield and the number of acres planted for harvest in 1964. The price support payment for each of the three feed grains is the same for all participating farms, regardless of the location. The national average support loan and the support payment rates for the feed grains covered by the program are as follows:

	Loan rate	Support payment	Total support
Corn (per bushel)	$1.10	$0.15	$1.25
Barley (per bushel)	.84	.12	.96
Grain sorghum (per hundredweight)	1.77	.23	2.00

Eligibility for price support and payments

Eligibility for diversion payments and price support is conditioned upon maintenance of the normal acreage (1959–60 average) in conserving uses or practices, including summer fallow and idle land on the farm. The acreage diverted from feed grains and devoted to conservation uses in 1964 will be in addition to the normal conserving base acreage for the farm.

State and county yields

A new provision of law for determining average yields for computing payments requires that county and farm yields for the 1964 program will be based on a 4-year average—1959 through 1962. A 2-year average of 1959 and 1960 was used in previous feed grain programs.

Producers with more than one farm

A producer with an interest in the feed grain crops on more than one farm may limit his participation to one farm. However, planting in excess of the feed grain base on any other of his farms will disqualify the producer for feed grain payments and price supports on a signed-up farm.

Compliance with other programs

Staying within the farm acreage allotments for other crops is not required on farms participating in the feed grain program. However, the planting of an additional acreage of wheat which would result in failing to maintain the farm's normal conservation-use acreage, including summer fallow and idle cropland, would make the farm ineligible for diversion payments and price support on the feed grains.

The following breakdown of estimated requirements for administrative expenses is based on experience and costs incurred in carrying out the 1961, 1962, and 1963 feed grain programs. No additional employment is requested for National and State levels. Funds are requested for these levels primarily for travel, communications, printing and reproduction of forms, instructions, publications, and related materials.

	Man-years [1]	Amount
ASCS Washington divisions and offices		$32,500
ASCS State offices		55,500
Printing and reproduction		300,000
Subtotal		388,000
ASCS county offices:		
Personnel compensation:		
Establishing and adjusting base acreages, productivity indexes and payment rates for about 3.2 million farms	353.8	1,590,370
Notifying producers of program provisions and base acreages, handling appeals, and answering inquiries	311.1	1,398,430
Conducting signup, processing applications for advance payment, and issuing sight drafts for about 1.2 million farms	270.1	1,298,100
Measuring farms, computing acreage, and checking use of diverted acres, including spot check (assumes that about 50% of 1964-crop farms will be checked in fiscal year 1964 with 5% spot check)	1,390.7	6,681,500
Handling noncompliance cases (about 7% of farms signed-up)	202.7	973,530
Total, personnel compensation	2,528.4	11,941,930
Travel		803,790
All other		2,066,280
Subtotal	2,528.4	14,812,000
Total estimated obligations	[1] 2,528.4	15,200,000
Deduct: Anticipated savings resulting from efficiency of operations under other programs	−216.2	−1,600,000
Total	[1] 2,312.2	13,600,000

[1] Non-Federal, employees of ASC county committees.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

(H. Doc. 203)

Sugar Act program

Request (for 3 months beginning April 1964)	$6,400,000
Appropriation to date	78,000,000
Obligations to Dec. 31, 1963	31,600,000
Expenditures to Dec. 31, 1963	22,501,159
Budget estimate next fiscal year	87,500,000

PROPOSED LANGUAGE

For an additional amount for "Sugar act program," $6,400,000, to remain available until June 30, 1965.

EXPLANATION OF LANGUAGE

The proposed language would appropriate an additional $6,400,000 for fiscal year 1964 for conditional payments due producers under the sugar act program.

PURPOSE AND NEED FOR SUPPLEMENTAL FUNDS

Under provisions of the sugar act of 1948, as amended, payments are required to be made to sugar producers who comply with certain requirements, such as nonemployment of child labor and payment of fair and reasonable wages. Recent data on the 1963 crop production, not available at the time the budget estimate was submitted, reflect substantial increases in production and corresponding increases in payment requirements for the fiscal year 1964. Failure to make prompt payment to producers would result in hardship to small producers and tend to jeopardize the successful administration of this essential program.

The proposed supplemental estimate would provide an additional $6,400,000 for fiscal year 1964 for making conditional payments to eligible sugar producers. At the time the budget estimate was submitted, it was stated that consideration might need to be given to a supplemental estimate for 1964 if later production estimates confirmed the forecasts of production available at that time. The most recent data on 1963 crop production indicate production substantially greater than that forecast at the time of the budget submission.

Under the Sugar Act of 1948, as amended, payments are made to domestic producers of cane and beets for compliance with specified conditions of employment, production, and price. Based on current forecasts of production, it is estimated that the 1964 appropriation of $78 million to cover such payments will be exhausted early in the fourth quarter. Unless additional funds are made available, it will be necessary to defer payments due producers until the fiscal year 1965. This will result in financial hardship to small producers and will tend to jeopardize the successful administration of this essential program.

There are attached tables reflecting changes in production and estimated payment requirements as shown in the 1964 budget and those required under current data.

Estimated sugar production by areas

[Thousands of short tons, raw value]

Area	1962 crop year		1963 crop year	
	Budget	Current	Budget	Current
Continental beet	2,650	2,598	2,900	3,100
Continental cane	1,000	853	1,000	1,175
Hawaii	1,100	1,120	1,150	1,100
Puerto Rico	1,200	990	1,200	1,100
Virgin Islands	11	11	15	16
Total	5,961	5,572	[1] 6,265	6,491

[1] Budget estimate was based on estimated lower production from the 1963 crop or on a total of 5,915,000 tons.

EXPLANATION OF PRODUCTION CHANGES

1962 crop year

Continental beet.—Although the sugarbeet crop production was at a record high, the sugar yield per ton of beets was about 3 percent below normal. Yields suffered largely because of adverse weather conditions in widespread areas of many of the 22 sugarbeet producing States during the planting and growing season. Abandonment of planted sugar beet acreage was the largest since 1955.

Continental cane.—Extremely dry weather in July and August, coupled with the coldest middle-December weather on record, reduced the Louisiana crop yield extensively. Also, a severe cold wave struck the Florida sugarcane area causing extensive damage to the 1962 crop.

Puerto Rico.—Sugar yield per ton for this crop was the lowest on record. Contributing factors to this low yield were various labor strikes and excessive rains during the harvesting, causing deterioration and spoilage.

1963 crop year

Continental beet.—Latest crop estimates indicate production of sugarbeets will be 21 percent higher than in 1962. It is estimated that the recovery per ton will be about the same as the prior 3-year average (1960–62). On this basis, it is estimated total production will approximate 3,100,000 short tons, or an increase of 200,000 short tons over the 1964 budget estimate and 502,000 short tons over the 1962 crop.

Continental cane.—Increase in estimated sugar production from the 1963 cane crop in Florida and Louisiana followed the Department's action increasing proportionate shares for farms in the mainland cane area by 10 percent. Due to the prevailing tight world supply situation and high prices of sugar, the 1963 crop proportionate shares were subsequently rescinded. Latest crop estimates indicate no change in the production outlook for Florida, but show an increase in Louisiana of about 175,000 short tons.

Puerto Rico.—Reduced production is attributable to additional information on the 1962 crop indicating lower yields than those previously estimated.

Hawaii.—Decrease attributable to a series of work stoppages prior to settlement of industry-labor contract disputes.

Requirements for payments to sugar producers, fiscal year 1964

[In thousands of dollars]

Area	Budget	Current	Change
Continental beet: 1963 sugar program	$44,985	$48,576	[1] +$3,591
Continental cane: 1963 Sugar program	9,606	15,039	[2] +5,433
Offshore cane:			
1962 sugar program (Puerto Rico)	14,513	10,455	[3] −4,058
1963 sugar program (Hawaii and Virgin Islands)	10,896	10,330	[4] −566
Total	80,000	84,000	+4,400
Adjustment to appropriation	−2,000		+2,000
Appropriation estimate	78,000	84,400	+6,400

[1] Increase of $3,591,000 due to increase in production of 200,000 short tons.

[2] Increase of $5,433,000 consists of (1) $3,468,000 previously reflected as anticipated lower production than the crop estimate; and (2) $1,965,000 for additional payments as reflected in latest production estimates showing an increase in production of 175,000 short tons above forecasts at the time of the budget submission.

[3] Decrease of $4,058,000 in payment requirements for the 1962 Puerto Rican crop was made possible because of the net decrease in production for the 1962 crop, in all areas, of 389,000 short tons. This permits the use of such 1964 funds for crop payments in other areas.

[4] Decrease of $566,000 results from estimated lower production of 50,000 short tons.

Sugar program, financial requirements: 1962 crop estimates based on latest State and area reports—1963 crop estimates based on November 1963 crop report

	1963, appropriation, 123/43305	1964, appropriation, 124/53305	1965, appropriation, 125/63305	1966, appropriation, 126/73305	Total
1961 sugar program—Payments to producers (deferred):					
Puerto Rico (1961–62)	$8,329,774				$8,329,774
1962 sugar program—Payments to producers:					
Continental sugarbeet area	44,460,919				44,460,919
Continental sugarcane area	11,478,904				11,478,904
Hawaii	10,176,762				10,176,762
Puerto Rico (1962–63)	3,056,082	$10,455,438			13,511,520
Virgin Islands	139,063				139,063
Total, 1962 program payments	69,311,730	10,455,438			79,767,168
1963 sugar program—Payments to producers:					
Continental sugarbeet area		48,575,737	$2,196,063		50,771,800
Continental sugarcane area		15,038,825			15,038,825
Hawaii		10,136,500			10,136,500
Puerto Rico (1963–64)			15,012,800		15,012,800
Virgin Islands		193,500			193,500
Total, 1963 program payments		73,944,562	17,208,863		91,153,425
1964 sugar program—Payments to producers:					
Continental sugarbeet area			47,422,432	$3,349,368	50,771,800
Continental sugarcane area			12,538,825	2,500,000	15,038,825
Hawaii			10,136,500		10,136,500
Puerto Rico (1964–65)				15,012,800	15,012,800
Virgin Islands			193,380		193,380
Total, 1964 program payments			70,291,137	20,862,168	91,153,305
Total conditional payments to producers	77,641,504	84,400,000	87,500,000		
Comparative transfer to other accounts	8,496				
Total, appropriation or estimate	77,650,000	84,400,000	87,500,000		

House Document 284 (Mar. 23, 1963) included the following for the Department of Agriculture:

"DEPARTMENT OF AGRICULTURE

"AGRICULTURAL RESEARCH SERVICE

"SALARIES AND EXPENSES

"Not to exceed $90,000 of funds appropriated under this head in the Department of Agriculture and Related Agencies Appropriation Act, 1964, for 'Plant and animal disease and pest control,' shall be available for meat inspection."

This supplemental request should be substituted for the one included in House Document 203 transmitted to the Congress on January 21, 1964, which is hereby canceled. The effect of this action is to eliminate the former request by $590,000. This decrease from the original request was made possible by transferring funds made available by the recent review to reduce costs without impairing programs. Under the Secretary's 7-percent interchange authority (5 U.S.C. 572) $500,000 was transferred and the remaining $90,000 will be made available by the above language provision. This proposed estimate will cover the cost of the mandatory salary reclassification of meat inspectors.

(NOTE.—The above is in substitution for the foregoing supplemental estimate for this item included in H. Doc. 203. This latest estimate cancels the $500,000 included in the original supplemental request for increased meat inspection workload and proposes that the remaining $90,000 for reclassification of certain meat inspector positions be provided by transfer from "Plant and animal disease and pest control" rather than by additional appropriation.)

[House of Representatives, 88th Cong., 2d sess., Doc. No. 240]

COMMUNICATION FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING FOR THE CONSIDERATION OF THE CONGRESS REDUCTIONS TOTALING $41,927,000 IN CERTAIN APPROPRIATIONS AND LIMITATIONS REQUESTED IN THE 1965 BUDGET FOR VARIOUS DEPARTMENTS AND AGENCIES OF THE EXECUTIVE BRANCH

THE WHITE HOUSE,
Washington, March 9, 1964.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIR: I have the honor to transmit herewith for the consideration of the Congress reductions totaling $41,927,000 in certain appropriations and limitations requested in the 1965 budget for various departments and agencies of the executive branch.

These reductions are made possible mainly by decreases in Federal civilian employment of 6,526 in June 1964 and 7,265 in June 1965 below the numbers estimated in the 1965 budget, and by other projected improvements in management and efficiency.

The planned reductions in end-of-year employment result from my memorandum of December 24, 1963, to the heads of the executive departments and agencies, directing an examination and reduction of the tentative ceilings I established on Federal civilian employment in the 1965 budget. I have reviewed the reports of the agency heads and am approving new ceilings which will effect the reductions in employment.

A listing of the proposed appropriation reductions is set forth in the attached statement. Additional details and supporting materials, as needed, will be provided to the Appropriations Committees of the Congress by the executive departments and agencies concerned.

Respectfully yours,

LYNDON B. JOHNSON.

Budget appendix page	Heading	Original estimate	Revised estimate	Decrease
	DEPARTMENT OF AGRICULTURE			
	AGRICULTURAL RESEARCH SERVICE			
85	Salaries and expenses, plant and animal disease and pest control	$65,955,000	$65,655,000	$300,000
	COOPERATIVE STATE RESEARCH SERVICE			
91	Payments and expenses	42,460,000	42,440,000	20,000
	Limitation on the amount available for necessary expenses of the Cooperative State Research Service	(287,000)	(267,000)	(20,000)
	FOREIGN AGRICULTURAL SERVICE			
116	Salaries and expenses	20,561,000	20,524,000	37,000
	AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE			
120	Expenses, limitation on the amount available by transfer from the limitation on the Commodity Credit Corporation administrative expenses	(35,868,000)	(35,668,000)	(200,000)
	COMMODITY CREDIT CORPORATION			
141	Limitation on administrative expenses (includes $200,000 for transfer to preceding account)	(37,650,000)	(37,351,000)	(299,000)
	Limitation on the amount available to expand and strengthen the sales program of the Corportation	(1,000,000)	(945,000)	(55,000)
	RURAL ELECTRIFICATION ADMINISTRATION			
147	Salaries and expenses	11,518,000	11,428,000	90,000
	FARMERS HOME ADMINISTRATION			
149	Salaries and expenses	40,284,000	40,184,000	100,000
	OFFICE OF MANAGEMENT SERVICES			
164	Salaries and expenses	2,527,000	2,482,000	45,000
	GENERAL ADMINISTRATION			
165	Salaries and expenses	3,372,000	3,357,000	15,000

U.S. Department of Agriculture

Budget amendments, fiscal year 1965, as shown in H. Doc. 240 dated Mar. 9, 1964

	Appropriation or limitation	Total agency yearend employment
Agricultural Research Service:		
Salaries and expenses:		
Plant and animal disease and pest control:		
Original budget estimate	$65,955,000	19,816
Amended budget estimate	65,655,000	19,776
Change	−300,000	−40
(Consists of $200,000 reduction in Khapra beetle program and $100,000 reduction in witchweed eradication operations. Eradication of the Khapra beetle from the United States and Mexico was completed in December 1963. Detection surveys will continue and elimination of any new infestation will be financed from plant pest control contingency funds. The reduction in the estimated cost of the witchweed program has resulted from the development of eradication procedures utilizing commercial contractors.)		
Cooperative State Research Service:		
Payments and expenses:		
Original budget estimate	42,460,000	107
Amended budget estimate	42,440,000	101
Change	−20,000	−6
(Reduction based on greater absorption of increased pay act costs, reducing increase for this purpose from +$32,000 to +$12,000.)		
Statistical Reporting Service:		
Salaries and expenses:		
Original budget estimate	11,431,400	3,100
Amended budget estimate	11,431,400	3,083
Change		−17
(Reduction in employment related to reimbursable data processing operations based on later estimate of services to be performed.)		
Foreign Agricultural Service:		
Salaries and expenses:		
Original budget estimate	20,561,000	925
Amended budget estimate	20,524,000	900
Change	−37,000	[1] −25
(Reduces increase for administration of Public Law 480 sales program and planning and coordination of market development cooperator projects and trade fair activities from +$72,500 to +$35,500.)		
Office of Management Services:		
Salaries and expenses:		
Original budget estimate	2,527,000	358
Amended budget estimate	2,482,000	352
Change	−45,000	−6
(Eliminates increase of $45,000 in original budget estimate for additional management services related to expanding programs of agencies served.)		
General administration:		
Salaries and expenses:		
Original budget estimate	3,372,000	292
Amended budget estimate	3,357,000	291
Change	−15,000	−1
(Reduces increase for additional assistance to the Secretary from +$58,000 to +$43,000.)		
Rural Electrification Administration:		
Salaries and expenses:		
Original budget estimate	11,518,000	995
Amended budget estimate	11,428,000	986
Change	−90,000	−9
(Reduces increase for strengthening engineering activities in the electrification program from +$127,000 to +$37,000. Reduction possible due to greater progress than previously anticipated in reducing administrative costs.)		

See footnote at end of table.

Budget amendments, fiscal year 1965, as shown in H. Doc. 240 dated Mar. 9, 1964.—Continued

	Appropriation or limitation	Total agency yearend employment
Farmers Home Administration:		
Salaries and expenses:		
Original budget estimate	$40,284,000	10,157
Amended budget estimate	40,184,000	10,147
Change	−100,000	−10
(Reduces increase for loan servicing from +$2,690,100 to +$2,590,100. Saving to be accomplished by extending use of selected equipment beyond GSA replacement standards.)		
Commodity Credit Corporation:		
Limitation on administrative expenses:		
Original budget estimate	37,650,000	----------
Amended budget estimate	37,351,000	----------
Change	−299,000	----------
Reduction applies to amounts proposed for transfer to other agencies as follows:		
Agricultural Stabilization and Conservation Service:		
Original budget estimate	(35,868,000)	6,263
Amended budget estimate	(35,668,000)	6,255
Change	(−200,000)	−8
(Includes saving of $136,000 in equipment rental costs due to purchase of ADP equipment in fiscal year 1964, and a reduction of $64,000 due to anticipated increase in productivity in commodity offices and the data processing center.)		
Foreign Agricultural Service:		
Original budget estimate	(1,596,000)	----------
Amended budget estimate	(1,497,000)	----------
Change	(−99,000)	----------
(Cost of administering barter and stockpiling and general sales management programs is being reduced through reorganization of work. Estimated costs have been revised as follows:		

	Previous	Change	Revised
Barter and stockpiling	$609,000	−$44,000	$565,000
General sales management	814,000	−55,000	759,000)

[1] Of this amount, −11 applies to reduction in the anticipated transfer from CCC.

Mr. WHITTEN. Thank you, Mr. Grant.

RESEARCH ON TOBACCO AND PESTICIDES

Before we close this year's hearings with the Department, I wish to comment on several pressing problems facing American agriculture.

One of the more pressing is that facing the tobacco producers and processors and millions of consumers as a result of the recent report of the Surgeon General on "Smoking and Health." The other is due to the terrific impact present publicity is having on the American consumer with regard to the use of insecticides and pesticides, the necessary use of which is absolutely essential to our high standard of living.

Tobacco has been a major agricultural commodity through the years. It is produced in 21 States and is the fifth largest income-producing crop to farmers. It is an $8 billion industry with growers receiving about $1.2 billion per year. It pays some $3.3 billion each year in taxes to our Federal, State, and local governments.

Due to the implications of the Surgeon General's report, it is essential that we find the answers through research. In this effort we must have the cooperation of the Department of Agriculture, the Department of Health, Education, and Welfare, and private industry, to determine the properties of tobacco which may affect the health of smokers and to develop means to eliminate any harmful substances found.

It is extremely important that this research begin immediately. The answers to this problem must be found just as rapidly as possible to prevent economic ruin for growers, substantial losses of revenue to the Federal and local governments, and injury to the public health.

This subcommittee has given a lot of study to what can be done expeditiously to meet these two urgent problems. Based on information obtained from the Department of Agriculture experts, as well as others who have reliable information and viewpoints on these matters, it appears to the members of the subcommittee that there are certain steps which it can and should take at this time to initiate research on health problems of tobacco immediately in whatever facilities may already be available.

Mr. NATCHER. Mr. Chairman, we now have available in Kentucky adequate facilities for an expanded program for tobacco research.

In 1960, the Legislature of the Commonwealth of Kentucky first appropriated $1 million for an agricultural research building, and later this amount was increased until the total cost of the building amounted to $4½ million. This is a large four-story building with thousands of feet of floor space now available for such a program. With this research facility which was dedicated in December of 1963, we have the necessary headhouse and hothouses used in conjunction with such research facilities. In the immediate vicinity, only a city block away and on the same campus, is located a large $11 million medical research facility. These facilities are under the control and operation of the University of Kentucky and are now available to accommodate such a program of research for tobacco. This agricultural research facility has received from the Federal Government annual appropriations for use in carrying on a tobacco research program with part of the funds used in constructing the headhouse and hothouses now available.

The State of Kentucky is the second largest producer of tobacco in the 21 producing States. Tobacco is of great concern to the Common-

wealth of Kentucky and our people at the University of Kentucky are offering the facilities now in existence for an expanded program in tobacco research which will include studies of the factors which may be detrimental to health. Only recently I have received the following telegram from Dr. John W. Oswald, president of the University of Kentucky.

WILLIAM H. NATCHER,
House of Representatives,
Washington, D.C.:

The University of Kentucky is prepared and anxious to expand significantly its research program on tobacco in an effort to help solve problems connected with smoking and health. It is also preparing for prompt activation of the first coordinated program in this country in agricultural and health sciences in solving these problems. The agricultural sciences research center together with the facilities in the new chemistry and physics building could make space available immediately to undertake an expanded agricultural and chemical research program of $1½ million dollars per annum of operating money. At the same time the medical center which is adjacent to the agricultural science center could make space available immediately to undertake a research program on medical phases of the problem. On a half million dollars operating money per annum staff in the college of medicine will be engaged in the kind of medical research which is closely connected and coordinated with the agricultural and chemical research. The university has developed an advisory committee reporting directly to the president of the university composed of faculty from all appropriate areas to insure coordination of all research programs at the university which will be connected in any way with the objectives of this program.

JOHN W. OSWALD,
President, University of Kentucky.

Mr. Chairman, the testimony presented to our committee during the hearings this year clearly indicates the necessity of an expanded program of research for tobacco. The situation today demands that, in an expanded research program for tobacco, we include studies of the factors which may be detrimental to health and ascertain as soon as possible those quality factors and other characteristics which will preserve the desirable characteristics of tobacco and eliminate any factors which may be detrimental to health. If tobacco is harmful to the health of our people then, Mr. Chairman, we should do something about it now. The consumer, and as you know there are millions of them, must be protected. As you have stated and others who have appeared before our committee, tobacco is an $8 billion industry which pays into our Federal, State, and local governments $3,300 million a year in taxes. The amount received by the producer for tobacco is the fifth largest amount received from any agricultural commodity.

To meet the present-day requirements we must immediately use existing Federal and State facilities and, if necessary, enter into contracts for additional tobacco research at any other facilities available. Time is of the essence and, Mr. Chairman, we should move now.

Research in the chemistry and physiology of tobacco has increased tremendously in recent years, but we must have more research underway at the present time. The study of the chemical constituents of tobacco of all types must be continued and expanded. There is a need for fundamental knowledge in biochemistry, enzyme reactions and the pathways of synthesis of tobacco constituents. Once the pathways of the synthesis of alkaloids have been elucidated the plant breeder may use this knowledge in his program to develop a more desirable plant. New varieties of tobacco resistant to the major diseases must be developed. One of the most urgent needs in all types of tobacco is im-

provement of quality. Fundamental studies of the uptake and utilization of nutrient elements need to be expanded. The quality of tobacco of all types is dependent to a great extent on the chemical changes that occur during senescence of the plant. Because of the implications to the health of the consumer from the use of tobacco with insecticidal residues, there is a continuing and urgent need for safer and yet more effective methods of control of insect pests of tobacco. We must also know more about the effect of the methods of application of insecticides on time of application before harvest. We need to know more about the substances in tobacco smoke which might produce health hazards. We must further know more about the burning process of tobacco. Mr. Chairman, all of these important additions to tobacco research have been urged by a number of witnesses during the hearings.

Our people at the University of Kentucky have the facilities and are ready, under the direction of the Department of Agriculture, to join forces with the Department of Health, Education, and Welfare, private industry, or any other organization or group anywhere in the United States, to bring about an adequate research program for tobacco which will protect the consumer of this country and preserve the large tobacco industry of this Nation.

Mr. Chairman, I recommend that the Congress appropriate $2 million to be used in an expanded program for tobacco at existing facilities, including those now available at the University of Kentucky in Lexington, Ky. As we go along in this program, additional funds can be appropriated, if necessary, to be used at other places equipped to join with us in this program which is so vital to our people today.

Mr. WHITTEN. The need for additional research on development, testing, and use of pesticides and insecticides, together with the effects of sprays or other residues from products used in agricultural production is also very acute. Recent well-publicized books and articles, not always based on complete and objective information, have increased public concern about this matter. Current statements in the press which make certain claims concerning the effect of agricultural pesticides on fish in the lower Mississippi River present a completely one-sided point of view.

The Congress and the Executive must see to it that the Department of Agriculture is represented in the formulation and release of such information in the future. To do otherwise is to seriously damage American agriculture and to jeopardize the American consumer's source of food and fiber for the future.

To enable the Department to protect agriculture and the consumer by developing and presenting full and complete facts on this matter and to develop improved methods of insect and pest control, some expansion of research activities in this area will be necessary. Congress provided for the establishment of a weed control laboratory last year. Since the work at this location will be directly concerned with the use of pesticides and insectides and other agricultural chemicals. It is my belief that plans should be modified to permit testing and development of pesticides, insecticides and other materials necessary to agriculture.

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