BREAD PRICES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON WHEAT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

SECOND SESSION

AUGUST 8, 9, 10, 11, AND 17, 1966

Serial TT

Printed for the use of the Committee on Agriculture

U.S. GOVERNMENT PRINTING OFFICE

68-603 WASHINGTON : 1966

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BREAD PRICES

MONDAY, AUGUST 8, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1301, Longworth House Office Building, Hon. Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell, Redlin, Bandstra, Callan, and Belcher.

Also present: Representatives Cooley (chairman of the full committee), Hagen of California, and Mrs. May.

Also present: Betty Prezioso, staff, and John J. Heimburger, general counsel.

Mr. PURCELL (presiding). The Subcommittee on Wheat will please come to order. I have prepared a short statement, in order that we may better understand what we are trying to do here.

The purpose of these hearings is to inquire into recently announced increases in the price of bread to the American consumer. At the present time, 4 days of hearings have been scheduled, and more time will be scheduled if necessary. We have invited farmers, grain dealers, millers, bakers, wholesalers, and retailers to testify concerning their part in the process of making bread products available to the consuming public.

Since the price increases were announced, there have been many charges and countercharges in different segments of the industry as to whether or not the increases are justified, and who is responsible for the increases. A great deal of information on the subject is available to us from the reports of the National Commission on Food Marketing which recently completed a 2-year study of the food marketing system. A technical report with a wealth of information on the milling and baking industries will soon be forthcoming from the National Commission on Food Marketing. As soon as possible, this material will be made available to the committee, and some of the more pertinent material will be included in the printed hearings we are beginning today.

As is the case with many industries today, milling and baking have undergone very significant changes. The numbers of farmers, millers, and bakers have been continually reduced because of new technology. The number of retailers has been reduced because of new marketing techniques and competitive factors of retailing.

I believe that, with any study of food prices, it is important for all of us in being objective to look at these prices in relationship to the rest of the economy.

The figures that I am going to state are familiar to you.

Any significant change in the price of bread has a definite and marked effect on our economy. This Nation consumes $4.5 billion worth of bread and related products each year. In its 1962 Survey of Manufacturers, the Bureau of Census said that bread and related products ranked eighth in value of shipments among all the classifications in their survey.

Since 1947 the price of a 1-pound loaf of bread has almost doubled. But, according to figures recently released by the National Commission on Food Marketing, the farm value of wheat going into a loaf of bread is roughly the same today as it was in the period of 1947–49. Since the report of the Commission, however, there have been increases in wheat costs.

The average American consumer today has the best food bargain of any person in the history of mankind. Today's average American spends only 18.2 percent of his take-home pay for food. This compares to 20 percent in 1960, and higher percentages before that time. Despite recent price increases, the present 18.2-percent figure is not expected to rise. Food is still the American consumer's best bargain.

We owe a real debt of thanks, I think, to our food industry, generally, for its adoption of new methods of growing, and processing, and distributing which have provided us with greater abundance and variety at lower prices than is the case with any major nation in the world today—or any time in the past. I know that each member of the committee will agree with that.

I hope, and I know that the members of the committee will agree with me, that these hearings will serve to develop the facts of the situation in a fair and objective manner. As I said in the release announcing these hearings, this is no witch hunt. I think that those who are interested will find that the members of this subcommittee will study with determination the objectives of this hearing, trying to find exactly as best we can where the price increases have gone.

We are not here to justify any preconceived conclusions. Our purpose is to give all parties a fair hearing, and to try to determine just why the price of bread has been increased. Our purpose is not to place blame or fault, but to determine the facts in view of charges which have already been made and the facts which now exist.

We have asked the Department of Agriculture to be the first to testify to lay the groundwork for our study. This will be followed by representatives of those who produce the grain from which bread is made, and then by others in the order in which they participate in the process of making wheat into bread and moving it into the hands of the consumer.

Mrs. May. I ask unanimous consent to insert my statement in the record at this point.

Mr. Purcell. Without objection, your statement will be inserted in the record.

(Mrs. May's statement follows:)

Statement of Hon. Catherine May, a Representative in Congress From the State of Washington

BREAD PRICES

I wish to compliment the Honorable Graham Purcell—Chairman of the House Agriculture Subcommittee on Wheat—for conducting these hearings on bread prices.

I would like to be associated with the opening remarks of the able Chairman.

I have had the privilege of serving with Mr. Purcell on the National Commission on Food Marketing, which recently completed a detailed study of the structure and performance of the American food marketing system.

Data accumulated in the course of the Commission's study provides some very valuable insights into food costs, including those related to bread. One of the tables compiled by the Commission illustrates the "spread" between the farmer's share and the retail price of a one-pound loaf of bread. It shows that, for 1964, the retail price of a one-pound loaf of bread was 20.7 cents—the marketing margin was 16.7 cents, leaving the farmer's share as 4.0 cents. This table is entitled *Distribution of Consumer's Dollar According to Cost Items*, and provides the following information:

	Cents	Percent [1]
Labor	8.2	40.0
Buildings and equipment	1.4	6.7
Containers and supplies	1.5	7.3
Advertising and promotion	1.0	4.8
Transportation, including local	.6	2.8
Administrative and other	2.9	14.0
Profits before taxes	1.1	5.4
Farmer	4.0	19.0

[1] Percentages inserted.

It should be noted that while these figures provide a perspective on cost items replating to the price of a loaf of bread, they stand in need of certain refinements. For instance, with respect to the 40% factor for Labor, the National Commission on Food Marketing report stated: "Bakers' costs have shifted significantly during the past decade. . . . Hourly wage rates increased 40 percent; however, increased labor productivity offset all but 15 percent of the rise in wages . . ." Whether this same relationship exists today between wages rates & productivity I do not know.

In addition to these cost items recorded by the Commission, price movements on bread provide us with some interesting insights. For instance, as per newspaper reports, the retail price of a one-pound loaf of white bread rose 3 cents from July, 1965, to July, 1966. In that same period, the farmer's return for the farm ingredients in that one-pound loaf—the wheat, skim milk, and other farm ingredients—rose from 3.4 cents to almost 4 cents, roughly a ½ cent increase.

And if one were to go back further, he would find that while the retail price of a one-pound loaf of bread was doubling between 1947–49, the value of wheat in the same one-pound loaf of bread stayed exactly the same; i.e. 2.7 cents (3.3¢ total farm ingredients).

From this, it is immediately obvious that the farmer's share in a loaf of bread is "sticky," shifting upward appreciably slower than other prices contributing to the cost of a loaf of bread. In the nature of things, this negative for the farmer poses as a positive for the consumer, for if the farmer's share in a loaf of bread had an upward thrust proportionate to that of other cost items, the price of bread would be somewhat higher than it is today.

It has to be remembered, too, that while a housewife is a consumer on one hand, so is her husband a wage earner on the other, and quite generally wage increases have been proportionate to price increases throughout the economy, including those for bread.

In an overall consideration, it must be recognized that price rises in the economy today are not reserved for bread alone—the prices of everything generally are rising for, as economists advise us, inflation is having a buoyant effect on prices today in the economy. This is reminiscent of the finding of the National Commission on Food Marketing, which stated: "Inflation in the whole economy goes a long way toward explaining the rising farm-retail spread since 1950."

And one of the principal causes of inflation is excessive government spending, which is all too much in evidence today. Little effort is being made to hold down spending on unnecessary domestic programs. The resultant unnecessary costs are piled on top of the burdensome expenses of the war we are engaged in at Viet Nam, prompting the economy to become overheated.

One of the most effective ways of curbing run-away prices is to cut back on government spending. If some discipline is exercised in this respect, then prices will stablize not only for bread but for all other goods and services in our economy. This will bring great benefit to the consumer—which means all of us!

Mr. PURCELL. We are delighted to have as our first witness the Under Secretary of Agriculture, John A. Schnittker.

We will be glad to hear from you at this time.

STATEMENT OF HON. JOHN A. SCHNITTKER, UNDER SECRETARY OF AGRICULTURE; ACCOMPANIED BY KENNETH E. OGREN, DIRECTOR, MARKETING ECONOMICS DIVISION, ECONOMICS RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. SCHNITTKER. Mr. Chairman and members of the subcommittee, I am pleased to appear before your subcommittee this morning. The Secretary of Agriculture shares your concern about recent increases in bread and other food prices and their impact on American consumers, especially those with low incomes.

In his recent appearance before the New York City Council, the Secretary stressed his belief in the basic unity of interest between the farmer and the consumer—and with the marketing system, too. Farmers must be fairly rewarded for their efforts to assure consumers of a dependable and adequate supply of food at reasonable prices. If farm product prices are too low, labor and capital in farming will move out of agriculture into other parts of our economy. Food supplies will then diminish; prices will then increase sharply; and the consumer ultimately will pay much more. The modest increases in farmers' income are long overdue and farmers still earn only about two-thirds of the earnings of nonfarm people.

Chart 1 shows the widening gap between retail food prices and prices received by farmers that has occurred since 1952. Although we have seen significant improvements in farm prices in 1965 and 1966, farmers' prices are still below the 1947–49 average.

And I think that this chart shows clearly that particularly in the 1950's and the early sixties, that farm prices were the stabilizers of the consumer food prices for many years.

I would like to present to the subcommittee this morning first a few facts and figures on the wheat supply and price situation and then discuss the relationship of wheat prices to bread prices.

Our wheat farmers have long met the challenge of providing this basic food product to consumers at home and abroad—in peace and in war. But the wheat farmer is in a precarious economic position. The National Commission on Food Marketing in its recent report emphasized this problem as following:

> At one end of the marketing process is the wheat farmer; at the other end, the retail outlet serving the consumer. Everyone along the market channel

competes for a share of the consumer's bakery dollar. The bargaining power appears to be in reverse order of the market flow. Retailers and wholesalers serving affiliated stores have the most bargaining power; the wheat farmers, the least. As a result, Government programs have long been used to help bolster wheat growers' economic position.

Recent international developments in wheat production, especially the food needs of India this year, have increased sharply the demands on U.S. wheat supplies. One-quarter of our total wheat crop this year is being shipped to India. It is expected that U.S. wheat stocks at the end of the current 1966–67 marketing year will be at the lowest point since the immediate post-World War II period. Accordingly, the Secretary of Agriculture has raised the wheat allotment for the 1967 crop year to 59.3 million acres, an increase of 7.7 million acres. Consideration is being given to a further increase in this acreage allotment.

Prospects of a smaller supply of wheat this year and a high level of export demand have combined to raise wheat prices in the last 3 months. Prices received by farmers in mid-July this year were $1.74 per bushel, compared with $1.44 in May and $1.31 in July 1965. During the current marketing year prices likely will remain further above the Government loan rate—currently, $1.25—than in any recent year.

The increase in the price of wheat in recent months accounts for only a fraction of a cent in the retail price of bread. In the 1-year period, July 1965 to July 1966, the farmer's return for the farm ingredients in a 1-pound loaf of bread rose from 3.4 cents to 3.9 cents, one-half cent.

The national average price of bread rose by about 1 cent during this 1-year period—far more than the rise in the cost of the farm ingredients. However, newspaper accounts report some recent additional price rises of 2 to 3 cents. It is clear that only a minor part of such price increases can be attributed to higher wheat prices.

To portray some basic facts on relationship of wheat and bread prices, let me present some charts for your examination.

These charts are attached to my statement.

1. The farmer gets a small share of the consumer's bread price—generally less than one-sixth (chart 2). In 1965, the farm value of all ingredients used in a pound loaf of white bread averaged 3.3 cents. Wheat made up only 2.7 cents; other farm ingredients were 0.6 cent. Thus, the wheat farmer's share of the average retail price of bread in 1965 was only 13 percent. For no other important food product is the farmer's share this low. In July of this year, the farmer got 3.2 cents for the wheat going into a loaf of bread, up 0.5 cent from last year.

2. Bread and wheat prices show little relationship to each other (chart 3). It takes a price change in wheat of about 70 cents per bushel to make a difference of 1 cent in the cost of the wheat in a 1-pound loaf of bread. Since World War II, retail bread prices and farmers' wheat prices have shown markedly different trends. The average price of bread has increased in every year except 1964. In more than half of the years, the farmer's price for wheat has declined. Since 1947–49, the price of bread has increased over 70 percent while farmers now receive about the same price for wheat, including the value of marketing certificates, as was received in 1947–49.

3. The main reasons for the increase in the retail bread price are found in baking and distributing bread (chart 4). The charges for

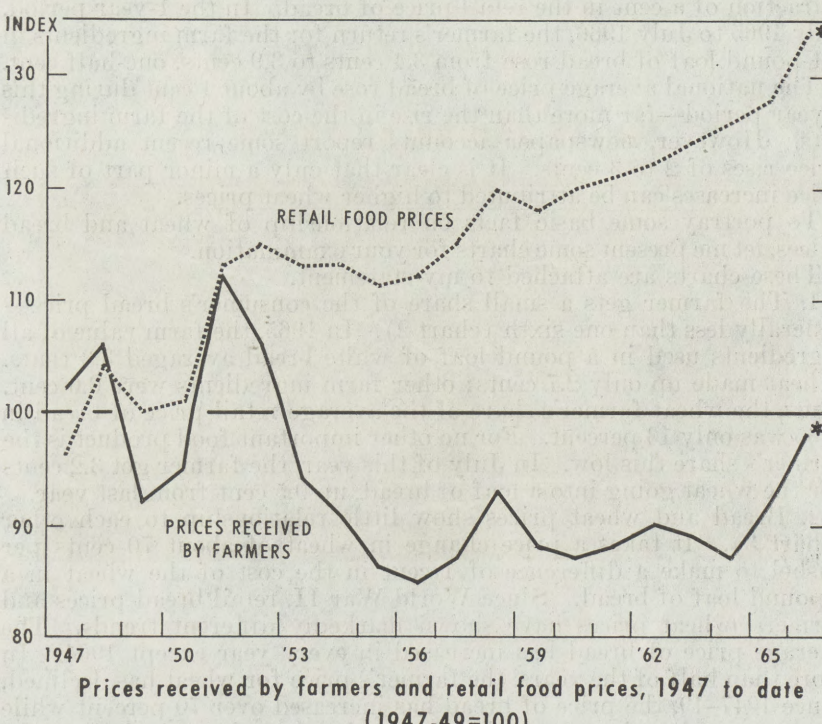
baking bread and distributing it are by far the major elements in the retail price of bread. These segments also account for most of the increase in the price of bread since 1947–49.

4. Retail bread prices vary greatly between cities (chart 5). Retail prices of bread in June 1966 (latest available data) varied from a low of 18.5 cents per pound loaf in Detroit to a high of 28 cents in Los Angeles. The differences in bread prices between several cities, for which prices are reported by the Bureau of Labor Statistics, far exceed the total cost of the farm ingredients. Further, as illustrated in chart 5, price changes over time also vary. These variations suggest that many factors are much more important than the price of wheat in determining retail bread prices.

Finally, let me emphasize that it is relatively low farm-product prices that have kept food prices from rising as much as most other things that consumers buy. Despite recent price rises in wheat and some other farm products, the American consumer is eating better food at the lowest real cost in our entire history.

The proportion of the consumer's disposable income spent for food is now about 18 percent compared with 20 percent in 1960 and 26 percent in 1947. Only a prosperous agriculture can give this continued assurance for the future.

(Charts (figs. 1, 2, 3, 4, and 5) follow:)



Prices received by farmers and retail food prices, 1947 to date (1947-49=100)

* Jan.-June average.

CHART 1

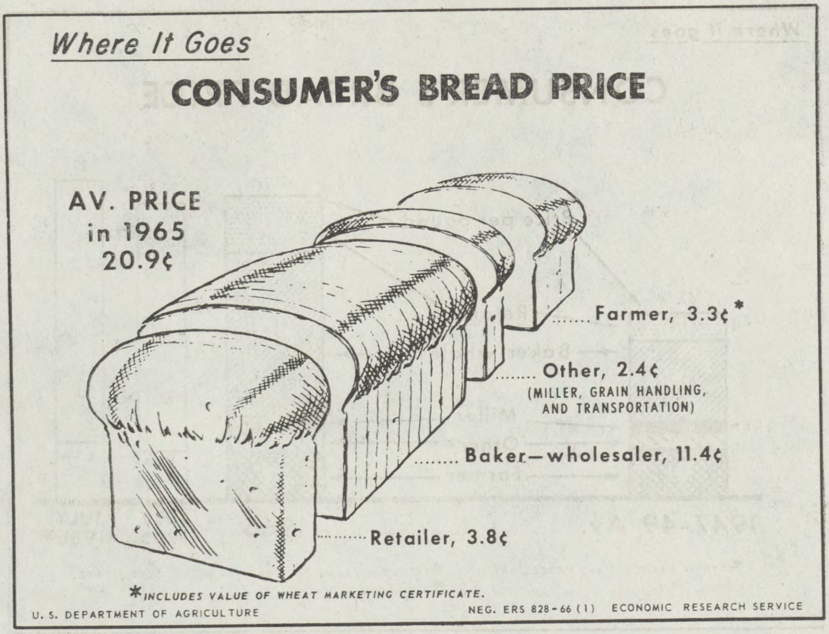


CHART 2

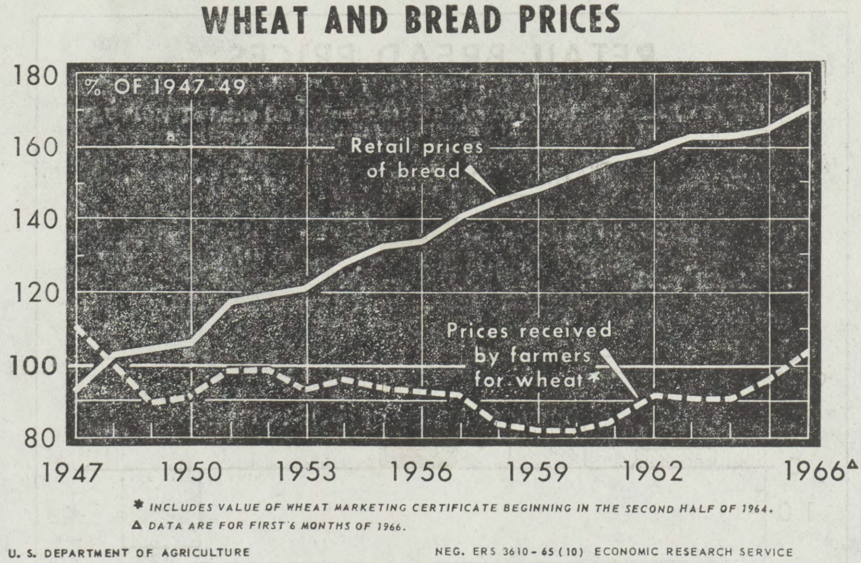


CHART 3

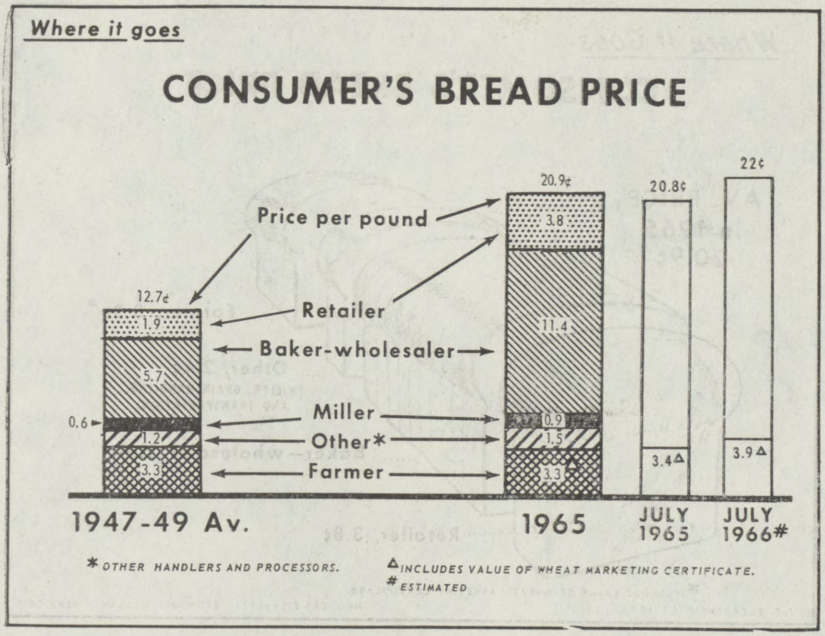


CHART 4

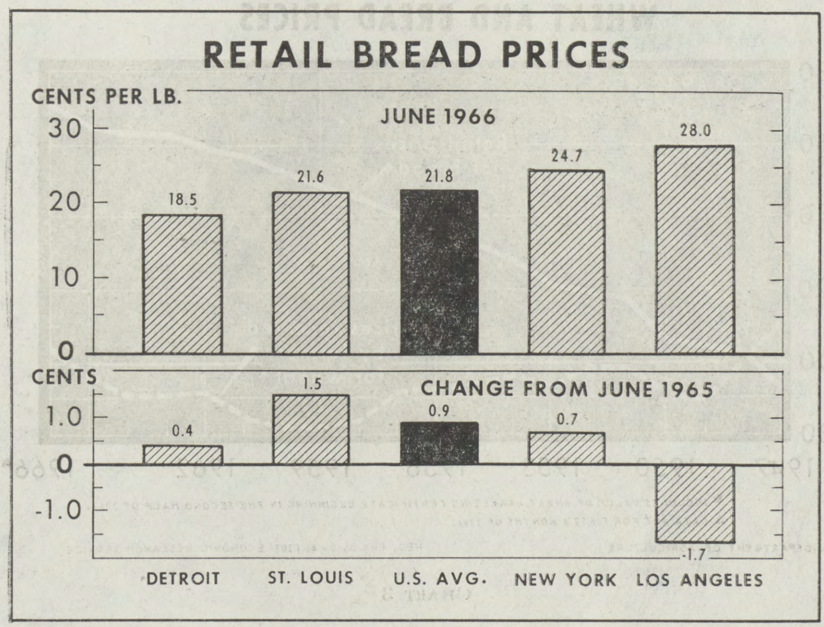


CHART 5

Mr. PURCELL. Thank you very much, Mr. Schnittker. There will be some questions by the subcommittee.

Mr. Belcher, do you have any questions?

Mr. BELCHER. No, not at present.

Mr. PURCELL. Mr. Redlin, do you have any questions?

Mr. REDLIN. Not at the moment.

Mr. PURCELL. Mr. Callan?

Mr. CALLAN. I have nothing at the moment.

Mr. PURCELL. Mrs. May?

Mrs. MAY. May I just ask one question?

Mr. Schnittker, we made a study of this, of course, in our National Commission on Food Marketing. I wonder if you will agree with one of the statements made in the Commission's report, that, if the farm prices had risen as much as the cost of marketing services, the farmer's share of the consumer's dollar over this period of time would not have declined.

Mr. SCHNITTKER. I think probably it is a statistical fact. We have also computed, I believe, the extent to which the farm prices have risen, which have been less than the cost of marketing service, which, actually, provides something like a $4 billion cushion in consumer food costs—that is, consumer food costs would be higher by about $4 billion if the trend in farm prices had been about the same as the cost of marketing services during the last 10 years.

Mrs. MAY. Farm prices have remained relatively stable?

Mr. SCHNITTKER. Yes.

Mrs. MAY. And the farm prices have not been brought up to the level of the cost of all of these other services that it takes to get the agriculture commodity into the hands of the consumer?

Mr. SCHNITTKER. That is correct.

Mrs. MAY. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Callan.

Mr. CALLAN. I would like to have the Department check these figures. I think that the wholesale prices of flour in Nebraska, July 1, 1965, indicated at that time it was $5.85 per hundredweight. The Continental Baking Co. of Washington tells me that it takes sixty-five one-hundredths of a pound of flour for a loaf of bread.

I checked the wholesale prices out in Nebraska August 5, 1966, this year, which indicated that it was about sixty-five one hundredths of a pound of flour that went into a loaf of bread, and my calculations show then that the difference in the price of flour in a 1-pound loaf of bread would amount to one-half a cent.

Will you have the Department check to see if this is substantially accurate, and if true there is about sixty-five one-hundredths of a pound of flour in a loaf of bread, the cost of flour in one loaf of bread would be one-half cent.

Would you have the Department check that for us and see if it is substantially correct?

Mr. SCHNITTKER. We will have that checked. There may be the possibility of a misplaced decimal point here.

(The information follows:)

The figure of 65/100ths pound of flour per pound loaf of bread is a representative statistic. The Department of Agriculture uses 0.641, which is an average of statistics reported by several baking companies.

The 65/100ths pound of flour per pound loaf of bread is equivalent to 154 loaves from each cwt. of flour. Hence, the flour price of $5.85 per cwt. for July 1, 1965, is equal to 3.8 cents per pound loaf of bread ($5.85÷154). The increase of 85 cents to $6.70 on August 5, 1965, represents a 0.55 cent rise per pound loaf of bread ($ .85÷154).

Mr. CALLAN. My point is that the flour in a loaf of bread in 1965, which was a year ago, cost 3.8 cents and it is now 4.35 cents, and that difference would be about one-half a cent per loaf.

Mr. SCHNITTKER. We will check that, Mr. Callan; yes, sir.

Mr. CALLAN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Redlin.

Mr. REDLIN. Mr. Chairman, thank you.

In one of your charts, Mr. Schnittker, I believe you referred to the price of a loaf of bread, that it varied from something like 18-plus cents to as much as 28 cents in different parts of the country. You alluded to certain reasons why you thought this existed. Would you comment on that a bit more? Would you enlarge that a little bit more?

Mr. SCHNITTKER. There are some cost differences that might enter into it. So far as the farmers are concerned, they would tend to be small.

The cost of the ingredients in North Dakota, say, would very likely be less than the cost of ingredients in Los Angeles.

There are also some competitive factors that may enter into it. These, of course, would vary greatly around the country, but we have several different kinds of baking operations, and we have a number of large national baking concerns. We have three large cooperative baking concerns identified by the Food Marketing Commission which control a substantal share of the baking industry. And, finally, the chains control quite a large share of the market. So that the extent of the competitive relationship among these different parts of the baking industry might also be a factor in the price of a loaf of bread in different parts of the country.

Finally, the cost of distributing—that is, the cost of both the materials and the labor that go into the distributing—might vary around the country, thus contributing to a difference in bread prices.

Mr. REDLIN. You indicated that there would be about 10 cents difference in the price of a loaf of bread in different parts of the country?

Mr. SCHNITTKER. Actually, 9.5 cents is what we have recorded for June 1966. The Bureau of Labor Statistics has reported that the 18½ cents being in Detroit and the 28 cents in Los Angeles. The differences cannot be explained, in any degree at all, by the difference in the material costs. Hence, they have to be explained by other factors, such as different competitive positions, different costs, and other factors that may go into the products.

Mr. REDLIN. You are convinced, Dr. Schnittker, that the difference in the cost of the commodity, wheat—the flour, of course—basically is not the element that is causing this tremendous difference in prices throughout the Nation?

Mr. SCHNITTKER. To the extent that price increases of 2 to 3 cents are following recent increases in wheat prices, they are clearly out of tune with the contribution of higher wheat prices to higher bread prices.

Mr. REDLIN. May I ask another question?

Mr. PURCELL. Yes.

Mr. REDLIN. You refer to competition in the bakery industry. Do you mean to infer that there is more competition in Detroit than there is in Los Angeles?

Mr. SCHNITTKER. I am not intimately familiar with the Detroit situation. I do know that in Detroit there has been some competition and some concern over imports of bread from Canada. It is right on the Canadian line.

Secondly, I know that the chain bakers operate in Detroit and provide a substantial element of competition.

I believe that several of the large national wholesale bakeries also operate in Detroit.

I am not aware if the same situation prevails in Los Angeles, where we have a higher price for bread.

Mr. REDLIN. I suppose, at some point, that we will develop the matter, perhaps, of the wage rates that the people baking bread in Detroit and in Los Angeles receive.

Would you care to give an opinion as to whether there is a great difference in the wage rates in the baking industry in Detroit as compared to Los Angeles?

Mr. SCHNITTKER. We do not have that information. I understand that the technical report on milling and baking, of the Food Commission, will have information on this.

Mr. REDLIN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Now, Dr. Schnittker, I have just one or two questions to follow Mr. Redlin's questions. The following figures comparing 1960 with today, illustrate how the American public can buy today in relation to 5 or 6 years ago, and are from the Department.

I am just going to repeat them for you and see if you agree with them, and if you understand them to be correct.

1. One hour of factory labor earnings in 1965 purchased 12.5 pounds of white bread compared to 11.1 pounds for 1 hour's work in 1960; 2.4 pounds of round steak compared with 2.1 pounds in 1960; 3.2 pounds of sliced bacon compared with 3.5 in 1960—I think that the price of hogs had increased some; 3.5 pounds of butter compared with 3 pounds; 9.9 quarts of milk compared with 8.7; 5 dozen eggs compared with 3.9 dozen eggs; 27.8 pounds of potatoes as compared with 31.4 pounds in 1960; 16.2 pounds of tomatoes as compared with 14.2.

You have the same figures, do you not?

Mr. SCHNITTKER. We do.

Mr. PURCELL. Do you agree that this shows the general purchasing power of the American public has increased, compared with 5 or 6 years ago, even though there are some increases in the price of wheat, that any change in farm prices has not kept up with the increase in wages and earning ability and other factors, so far as the American public is concerned?

Mr. SCHNITTKER. That is correct, Mr. Chairman. It shows that, generally, that the worker can buy more food for an hour's work than he could 5 or 6 years ago.

Mr. PURCELL. Relating the price of wheat to the price of other commodities, do you feel that the recent increase in the price of wheat to the farmer has been justified? I am not talking about the farmer's increased costs of buying things and running his farm and operating his business. Is it your judgment that this recent increase in the price of wheat has been justified, so far as the earnings compared to the farmer's returns are concerned?

Mr. SCHNITTKER. I believe it has, Mr. Chairman, not only from the standpoint of the wheat farmer earning an adequate income but also assuring him of an income in the near future which will provide and which will give him the incentive to produce the wheat that we need; and, finally, from the standpoint of market conditions, with a very big drain on our own wheat supplies, and, certainly, the coincidence of a poor crop in the Winter Wheat Belt, all combine to produce market conditions that certainly justify higher prices.

Mr. PURCELL. Can you compare the current price of wheat with the historic price of wheat, when it has been higher in earlier years?

Mr. SCHNITTKER. This is a little complicated, because 2 years ago, in shifting to the wheat-certificate program, we shifted to a lower base for the actual market price of wheat, with the marketing certificate adding an element of income to the wheat farmer. I think that the best comparison we could make would be in terms of the loan rate, related to the price this wheat moved in the marketing system. We have to look back to 1947–48 to find a period when wheat prices were as far above the support level as they are in July and August of 1966. Certainly, it has been 15 or 20 years, since wheat prices have been strong relative to the support level.

Mr. PURCELL. Mr. Cooley, the chairman of the full committee, do you have any questions?

Mr. COOLEY. Could I interrupt for one moment?

Mr. PURCELL. Yes, sir.

Mr. COOLEY. I have here a study made by the staff of this committee and published in June of 1966 of food costs and farm prices. The record that I have here indicates that the price of wheat in a loaf of bread has increased four-tenths of 1 cent since 1947–49 and that a loaf of bread has gone from 12.7 cents in 1947–49 to 21.8 cents, an increase of 71 percent. The wheat in the loaf of bread has increased from 2.7 to 3.1 cents, or 14.8 percent and the other ingredients have gone up from 0.6 to 0.7 cent, an increase of 16.7 percent. Charges for transportation and so forth have gone up 16.7 percent; the baker's margin has gone up 103.5 percent or almost 6 cents; and the retailers' margin has gone up 110.5 percent.

I just cannot see how anybody can say that the farmer is being paid too much for his wheat in the face of this record. I do not think anybody can deny that the average price of a loaf of bread has increased from 21.4 cents nationwide in January of this year to 21.8 cents in June of this year. That does not seem to be an alarming increase. I think that everybody knows that the hourly wage that a factory worker gets has increased and that 1 hour's wages will buy more than it did 10 or 20 or 30 years ago. The pay for 1 hour's factory labor in 1966 buys 12.4 loaves of bread, and in 1965 1 hour's work purchased 12.5 loaves of bread. In 1942, an hour's pay bought only 9.8 loaves and in 1932, 6.3 loaves. In all of these increases, the farmer certainly has not been the beneficiary. While he has had a slight increase in the cost of the wheat that goes into the bread, he has had a substantial increased cost of production. Is that not true?

Mr. SCHNITTKER. That is correct. As I indicated a moment ago, I believe that the wheat prices at the present levels are justified both from the standpoint of marketing conditions and as to the need to provide the farmer the incentive to produce the wheat that the country needs for the immediate future.

Mr. COOLEY. I am glad that Mr. Purcell is taking this matter under consideration with the hope that the consuming public will understand that the farmer certainly is not to be blamed for the increase in the bread price.

That is all, Mr. Chairman.

Mr. PURCELL. Thank you.

Mr. Hagen, do you have any questions?

Mr. HAGEN of California. Yes, Mr. Chairman.

Do you have any opinion as to what extent the labor costs are a part of this increase in the costs, beyond the farmer and profits, and the like?

Mr. SCHNITTKER. In this area, we do not have much by way of opinion. We know that since the base period, 1947–49, that wages paid the workers in the baking industry have a little more than doubled—$1.15 actual earnings including overtime in 1947–49 to $2.50 in 1965—actually, an increase of a little more than 100 percent. It may be that the technical report of the food commission will have information on this. As to profits, we can insert detailed information for the record.

Major bread baking companies [1]

[Dollars in thousands]

	Sales	Income taxes		Percent of sales	
		Before taxes	After taxes	Before taxes	After taxes
Year:					
1947	$513,813	$30,454	$18,634	5.93	3.63
1948	559,621	42,333	26,035	7.56	4.65
1949	533,648	33,629	21,010	6.30	3.94
1950	553,935	37,712	21,436	6.81	3.87
1951	610,911	35,894	17,103	5.88	2.80
1952	641,571	38,962	17,815	6.07	2.78
1953	685,780	40,294	18,692	5,88	2.73
1954	709,534	36,131	18,062	5.09	2.55
1955	764,788	43,717	21,504	5,72	2.81
1956	840,292	44,855	21,761	5.34	2.59
1957	908,670	48,209	23,580	5.31	2.60
1958	937,957	47,273	23,220	5.04	2.47
1959	1,016,624	48,187	23,565	4.74	2.32
1960	1,086,626	43,323	21,020	4.0	1.9
1961	1,087,913	29,177	13,861	2.7	1.3
1962	1,124,438	26,099	13,027	2.3	1.2
1963	1,200,980	29,848	13,186	2.5	1.1
1964	1,231,122	30,393	15,742	2.5	1.3
1965	1,281,011	27,795	17,035	2.2	1.3

[1] Includes: (1) Continental Baking, (2) General Baking, (3) Ward Baking, (4) Purity Bakeries, (5) Interstate Bakeries, (6) Langendorf, and (7) American Bakeries. (Purity Bakeries merged with American in 1953 and Langendorf Bakeries merged with American in 1964.

Mr. SCHNITTKER. The profits in the baking industry, insofar as the large national banking corporations are concerned, have been relatively low as a percent of sales, and relatively low as a percent of equity, when you compare the bread baking industry with the food industry generally, or with the manufacturing industry, in the United States. Profits have been running about 1.5 to 2.5 or 3 percent as compared to sales, and are also quite low in relation to the rest of the industries, when compared to equity.

Mr. HAGEN of California. That would indicate that the bakers are not the villains in this picture; is that correct?

Mr. SCHNITTKER. I am not prepared to try to identify any villains. [Laughter.]

Mr. HAGEN of California. This is the problem in all of these studies, trying to find the villain.

Mr. SCHNITTKER. Our concern is to lay out the facts that will help make it possible to avoid price increases, if that is possible, or if price increases are required in the retail costs of some food that they be clearly related to increased costs as they arise, whether they be from wage costs or any other costs. We believe, particularly that in this period of national emergency, that there should be no effort to pyramid a small increase in one factor that goes into food, into a substantial price increase.

Mr. HAGEN of California. Is not pyramiding inevitable in selling any processed product? In other words, a processor probably gets a certain percentage of markup on his investment of capital, so to speak, and the more hands that it goes through, inevitably an increase at the farm level is magnified by the time it gets up to the consumer, thereby pyramiding. This is just inevitable, is it not?

Mr. SCHNITTKER. There is some of this built in, in almost every product.

Mr. HAGEN of California. That is one of the objections against a tax levied at the manufacturer's level in lieu of a sales tax, because it does multiply itself.

Mr. SCHNITTKER. This can be measured. It is our belief that some of the reported 2 and 3 cents per pound increases in the retail price of bread are neither the result of the farm price increases and cannot be attributed to those pyramiding in the process and marketing.

Mr. COOLEY. Will you yield?

Mr. HAGEN of California. Yes.

Mr. COOLEY. These figures that I have here, are they accurate as to the January bread cost of 21.4 cents as compared with June of 21.8 cents?

Mr. SCHNITTKER. That is correct.

Mr. COOLEY. That is a one-half cent per pound increase.

Mr. HAGEN of California. According to your charts, the price of bread has gone done in Los Angeles? How do you account for that?

Mr. SCHNITTKER. Well, it started from a high base for one thing. I cannot account for it in any detail.

Mr. HAGEN of California. It has dropped substantially since?

Mr. SCHNITTKER. Recently, in the face of increases in much of the rest of the country on a somewhat higher cost of the ingredients, the retail price of bread has dropped in Los Angeles, starting, as I said, from a higher base, from the figures that the Bureau of Labor Statistics has reported in any urban place in the country.

Mr. HAGEN of California. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Are there any other questions?

If not, thank you very much, Mr. Schnittker.

Mr. SCHNITTKER. Thank you, Mr. Chairman.

Mr. PURCELL. Our next witness will be Mr. Reuben L. Johnson, director of legislative services, National Farmers Union.

We will be glad to hear from you now.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, WASHINGTON, D.C.

Mr. JOHNSON. Mr. Chairman and members of the committee, I have what, in effect, are two statements, one of which I would like to submit for the record, along with a number of charts which I have included.

This statement that I am asking permission to submit is a general statement dealing with the economic situation that the farmers find themselves in presently, as well as the issue of food costs generally, which is on the subject matter of these hearings, wheat prices in relation to bread prices.

My oral statement here will be pinpointed to deal wtih this subject.

I am Reuben L. Johnson, director of legislative services, National Farmers Union, 1012 14th Street Northwest, Washington, D.C. I am appearing here today for Mr. Tony F. Dechant, president of the National Farmers Union.

Mr. Dechant asked me to bring to the subcommittee his commendation for holding these hearings and for your interest and efforts, Chairman Purcell, in having the record clearly made as to those responsible for unjust and unwarranted price increases in bread.

Farmers Union fully supports the action of Secretary Orville Freeman in calling on the Federal Trade Commission, an independent agency with no ax to grind, "to review immediately the pricing policies and actions for bread and milk, including recent price changes of those food items and their relation to all factors affecting costs and the conditions of competition."

We believe that this hearing today will produce information that will be helpful to all who want to make a study of the reasons for increases in the price of milk and bread.

Our president, Mr. Dechant, has written the president of the New York City Council, the Honorable Frank C. O'Connor, in connection with the hearing of the investigating committee on bread and milk price increases expressing the full support of National Farmers Union for their study.

The letter also expressed the "hope that the New York State attorney general will proceed with legal action on the evidence of the inquiry and that he will be successful in bringing those responsible to the bar of justice," and a proper accounting to the consumers of New York City.

I will request your permission to include in the record a copy of Mr. Dechant's letter to the Honorable Frank O'Connor.

Mr. PURCELL. Without objection, that will be allowed.

(The letter referred to follows:)

NATIONAL FARMERS UNION,
Washington, D.C., August 4, 1966.

Hon. FRANK C. O'CONNOR,
President of the New York City Council,
New York City Hall,
New York, N.Y.

DEAR PRESIDENT O'CONNOR: As president of the National Farmers Union, an organization representing 250,000 commercial family farmers I would like to commend you upon the appointment of a Committee of Inquiry to investigate the recent rise in food price in the City of New York.

As you know I am sure, these price rises have not been confined to the City of New York. Similar increases have occurred across the Nation.

We have been deeply concerned in recent weeks about rises in the retail price of milk going far beyond what was justified by the increase in dairy price supports announced on June 29th. According to reports I have received from various parts of the country, the retail increase has been, without exception, at least double the rise in returns to the farmer. In some areas the reasonable addition to farm fluid milk prices has been multiplied five times in the consumer's milk bill. Yet processors and retailers across the nation have unanimously attributed the full extent of the retail price increase to the boost in farm support rates.

The same situation has developed with respect to wheat. One pound loaves of bread have been going up two, three and four cents in the supermarkets. The mid-July wheat price was 49¢ per bushel above the support rate of $1.25. Since one bushel of wheat is enough to produce 68.4 one pound loaves of bread, the maximum rise in retail bread prices justified by the rise in the market would be only 7/10ths of one cent. Yet, here again, millers and bakers are attributing the retail price rise entirely to higher farm returns.

The tendency of processors and retailers to balloon modest increments in farm prices into substantial increases in costs to the consumer is deplorable in itself. When coupled with an industry-wide policy of falsification, designed to blame the farmer for increased profits they receive, it is intolerable and warrants immediate counteraction.

In our view, the kind of misinformation that is being scattered about today concerning the farmer's responsibility for retail food price rises has been a basic factor causing consumers—and governmental officials with inadequate knowledge of farm and food price trends—to draw a different conclusion; to blame the farmers each time food prices go up and to seek means of depressing farm prices whenever inflation threatens. We believe, therefore, that recent attempts to mislead the consumer stand in direct and violent conflict with the purposes of Senate Concurrent Resolution Number 88 recently passed by the Senate and with our continuing efforts to achieve consumer recognition of the equity of the parity goal.

We hope that the New York State Attorney General Louis J. Lefkowitz will proceed with legal action on the evidence his inquiry has produced during the last six months on price fixing and that he will be successful in bringing those responsible to the bar of justice.

Be assured of the cooperation of the National Farmers Union in your efforts to investigate the continual rise in food prices.

Very truly yours,

TONY T. DECHANT, *President.*

Mr. JOHNSON. Some people may feel that we are somewhat out of place as a farm organization when we spend our time and efforts seeking and supporting investigations of retail food prices in New York City. In our view, however, one of the most important needs of the farmer is to have consumers understand the relationships between the prices they pay for food items and the farmer's return on the food commodities. We want the consumers to have the facts, and to realize that parity returns for agriculture will actually cost them very little and—over the long run—will save them very much.

Our concern over the consumer's view of agriculture extends far beyond our interest in a friendly attitude toward farmers among the people who ultimately consume their production. Everybody wants to be liked, but there is much more to it than that. The steps that were taken this spring by various agencies of Government to depress farm prices because of a concern over inflation stand as a grim reminder to farmers that a lack of understanding of the long-range income situation and their very small share of the consumer food dollar can result in damage to their already depressed economic position.

The kind of understanding and knowledge that we seek has been severely threatened in recent weeks. I would like to cite a few examples:

In connection with a survey conducted by city markets commission, Samuel J. Kearing of New York City a short time ago, The New York Times on July 29 reported the following:

> The commissioner reported that major bakers in the city raised the price of a loaf of bread from 28 to 30 cents last Monday, and blamed the increase on higher costs because of a national drop in wheat production. The price of a loaf of bread in the city jumped from 27 to 28 cents last November.

Thus, bread prices in New York have gone up 3 cents in the last 9 months, and farm prices have been listed as the sole cause.

In the St. Louis Globe-Democrat on July 27, staff writer Jackson Davis reported that bread prices in that city had risen "2 and 3 cents a loaf—depending on the size you buy," and that local wholesale baking firms attributed the bread price increase "to the skyrocketing cost of flour." They said that the rise reflected "recent nationwide holding tactics on the part of the wheat farmers."

In Milwaukee, 1½ pound loaves of bread have gone up 2 cents for the second time in 5 months, a total of 5 cents since March, and bakers in that city, too, have declared that soaring wheat prices are to blame for the increase in the retail end.

This is just a small sampling of the press reports we have seen, and in each instance these substantial increases in retail bread prices have been attributed entirely to the increased market price of wheat.

These reported statements by bakers are simply not true. The subcommittee will, I am sure, compile more detailed figures than I am able to offer, but I do want to cite just a few statistics to indicate the extent of the misinformation the consuming public has received.

I would like to raise the question as to whether the material Chairman Cooley was citing from has been made a part of the record. I have the table that he was quoting from, and if it has not been included in the record, I would like to ask permission to put it in the record.

Mr. PURCELL. I believe it has not been made a part of the record.

Without objection, it will be made a part of the record at your request.

Mr. JOHNSON. Thank you very much.

(The table referred to follows:)

White pan bread: Estimated retail and wholesale prices of a 1-pound loaf, retailer's, baker-wholesaler's, miller's and other spreads, and estimated farm value of ingredients, averages 1947–49 and 1957–59, years 1960–64, and months 1964–65 [1]

[In cents]

Year and month	Retail price [2]	Retail spread [3]	Wholesale price [4]	Baker-wholesaler spread [5]	Cost to baker: All ingredients [6]	Cost to baker: Flour [7]	Mill sales value of flour [8]	Miller's flour spread [9]	Cost of wheat to miller [10]	Other spreads [11]	Farm value: Wheat [12]	Farm value: All ingredients [13]
1947–49 average	12.7	1.9	10.8	5.7	5.1	3.5	3.4	0.6	2.8	1.2	2.7	3.3
1957–59 average	18.5	2.7	15.8	10.5	5.3	3.9	3.6	.8	2.8	1.5	2.4	3.0
1960	19.5	3.0	16.5	11.2	5.3	3.9	3.6	.9	2.7	1.5	2.3	2.9
1961	20.0	3.3	16.7	11.3	5.4	4.0	3.7	1.0	2.7	1.4	2.4	3.0
1962	20.3	3.5	16.8	11.1	5.7	4.3	4.0	1.0	3.0	1.5	2.6	3.2
1963	20.7	3.7	17.0	11.4	5.6	4.1	3.9	1.0	2.9	1.5	2.5	3.1
1964 [14]	20.7	3.7	17.0	11.4	5.6	4.1	3.8	.9	2.9	1.5	2.5	3.2
1965 [14]	20.9	3.8	17.1	11.4	5.7	4.2	3.9	.9	3.0	1.5	2.7	3.3
1964: [14]												
January	20.7	3.7	17.0	11.4	5.6	4.0	3.8	1.0	2.8	1.4	2.6	3.2
February	20.6	3.6	17.0	11.4	5.6	4.0	3.8	1.0	2.8	1.4	2.6	3.2
March	20.6	3.6	17.0	11.6	5.4	3.9	3.6	.9	2.7	1.5	2.4	3.0
April	20.6	3.6	17.0	11.4	5.6	4.1	3.8	1.0	2.8	1.5	2.5	3.1
May	20.5	3.5	17.0	11.6	5.4	4.0	3.7	.9	2.8	1.4	2.5	3.1
June	20.6	3.6	17.0	11.4	5.6	4.2	3.9	1.9	2.0	1.2	1.8	2.5
July	20.6	3.6	17.0	11.3	5.7	4.3	4.0	1.1	2.9	1.3	2.7	3.3
August	20.7	3.7	17.0	11.4	5.6	4.2	3.9	.9	3.0	1.4	2.7	3.3
September	20.8	3.8	17.0	11.4	5.6	4.1	3.9	.8	3.1	1.5	2.7	3.3
October	20.9	3.9	17.0	11.4	5.6	4.2	3.9	.8	3.1	1.5	2.7	3.3
November	20.9	3.9	17.0	11.4	5.6	4.2	3.9	.8	3.1	1.5	2.7	3.3
December	21.0	4.0	17.0	11.5	5.5	4.1	3.8	.9	2.9	1.3	2.6	3.3

1965:[14]												
January	21.0	4.0	17.0	11.4	5.6	4.1	3.8	.8	3.0	1.5	2.7	3.3
February	20.9	3.9	17.0	11.5	5.5	4.1	3.8	.8	3.0	1.4	2.7	3.3
March	21.0	4.0	17.0	11.5	5.5	4.0	3.8	.8	3.0	1.4	2.7	3.3
April	21.0	4.0	17.0	11.5	5.5	4.0	3.8	.8	3.0	1.4	2.6	3.3
May	20.9	3.9	17.0	11.5	5.5	4.0	3.8	.8	3.0	1.4	2.6	3.3
June	20.9	3.9	17.0	11.4	5.6	4.1	3.8	.9	2.9	1.5	2.6	3.2
July	20.8	3.8	17.0	11.2	5.8	4.3	4.0	1.0	3.0	1.4	2.7	3.4
August	20.8	3.9	16.9	11.1	5.8	4.3	4.0	.9	3.1	1.5	2.7	3.4
September	20.8	3.9	16.9	11.1	5.8	4.2	4.0	.8	3.2	1.6	2.7	3.4
October	20.9	3.8	17.1	11.3	5.8	4.3	4.0	.9	3.1	1.5	2.7	3.4
November	20.8	3.4	17.4	11.6	5.8	4.3	4.0	.9	3.1	1.5	2.7	3.4
December	21.1	3.6	17.5	11.7	5.8	4.3	4.0	.9	3.1	1.5	2.8	3.4
1966:												
January	21.4	3.9	17.5	11.6	5.9	4.3	4.0	.9	3.1	1.5	2.8	3.5
February	21.5	3.7	17.8	11.9	5.9	4.3	4.0	.9	3.1	1.5	2.8	3.5
March	21.6	3.8	17.8	12.0	5.8	4.2	3.9	.8	3.1	1.5	2.8	3.5
April	21.8	3.9	17.9	12.1	5.8	4.2	4.0	.8	3.2	1.6	2.8	3.4
May	21.7	3.9	17.8	11.9	5.9	4.4	4.1	.9	3.2	1.5	2.8	3.5
June	21.8	4.0	17.8	11.6	6.2	4.7	4.4	1.0	3.4	1.4	3.1	3.8

1 Some of these data have been revised since the table was published in Spreads in Farm-Retail Prices of White Bread, U.S. Department of Agriculture, Miscellaneous Publication 969, September 1964.

2 Average of retail prices in urban areas reported by Bureau of Labor Statistics, prices 1947–63 have been adjusted to a level comparable with prices reported for 1964.

3 Spread between retail and wholesale prices.

4 Derived from wholesale prices published by the Bureau of Labor Statistics and trade data.

5 Spread between wholesale price and cost to the baker of all ingredients.

6 Cost of flour, shortening, nonfat dry milk, sugar, and other ingredients in a pound of bread, adjusted to level of cost to baker as reported in the Census of Manufactures.

7 Weighted average wholesale value of 0.641 pound of several types of bread flour in 3 markets, adjusted to the level of cost to baker as reported in the Census of Manufactures.

8 Weighted average wholesale value of 0.641 pound of several types of bread flour in 3 markets, adjusted to mill sales level as reported in the Census of Manufactures.

9 Spread between sales value of flour and cost of wheat to miller.

10 Weighted average wholesale value in 6 markets of major classes and grades of wheat used for milling bread flour adjusted to level of cost to miller as reported in the Census of Manufactures and further adjusted to eliminate imputed value of millfeed products.

11 Spread or charges for transporting, handling, and storing all ingredients and for processing ingredients other than flour. This spread is a residual figure.

12 Returns to farmers for wheat less imputed value of millfeed byproducts, based on average local market prices received by farmers for all wheat; return for 0.894 pound before July 1957, 0.882 pound from July 1957–December 1963, and 0.877 pound beginning January 1964.

13 Value at prices received by farmers, less byproduct allowances, for the quantity of wheat and other farm products yielding ingredients used in a pound loaf of white bread.

14 Starting July 1964, the cost of wheat to millers is based on market prices paid by millers plus cost of the domestic marketing certificate—70 cents from July 1964 through June 1965 and 75 cents beginning with July 1965. The farm value is based on market prices of wheat received by farmers plus the value of the domestic marketing certificates received by farmers complying fully with the Federal wheat program—70 cents from July 1964 through July 1965 and 75 cents beginning with July 1965.

Mr. JOHNSON. On July 15, 1965, the market price of wheat in the United States averaged $1.33 per bushel. On the same date this year, the comparable figure was $1.76—a substantial increase of 41 cents. If she knows only this, we can readily understand how a housewife in the grocery store could find the baker's statements to be plausible.

But a bushel of wheat produces enough flour to make 68.4 1-pound loaves of bread. The 41-cent increase in wheat prices would therefore justify an increase of just about exactly six-tenths of 1 cent in the retail price of bread between July 15 of last year and the same date of 1966.

So consumers in New York City are being told that farmers received 2.4 cents that actually disappeared somewhere between the farmer and the housewife.

It must also be remembered that there is a time lag between the purchase of wheat and the sale of that wheat, as bread, in the supermarket. The bread, consumers are paying 2, 3, and 4 cents more for today, is quite possibly made from wheat purchased by the millers in June, when the market price was only 29 cents above the price in July, 1965. In that case, the justified increase would be far less than one-half cent. In May, when the market price of wheat averaged only 13 cents above last July levels, the bread price should have been only about two-tenths of 1 cent higher.

It is also important to note that the wheat markets are now starting to sag somewhat from their strong mid-July levels. The latest information we have is that on August 2 the average price had dropped 5 cents. We will be watching carefully, as I know the members of the subcommittee will, to see if this small drop to the farmer is multiplied into a large drop in retail prices in the same manner as the increases in farm returns have been ballooned to the consumer.

In the past, the House Committee on Agriculture has performed a great service both to farmers and to consumers in this country through its studies on the relationship between farm and food prices. The annual document "Food Costs—Farm Prices" contains facts which roundly dispose of any contention that farmers are responsible for increased retail food costs. The print released in June of this year points out that while the farm price of wheat—including 75 cent certificates since 1964—was 3 percent lower in 1965 than in the 1947–49 base period, retail prices of cereals and bakery were 47 percent higher.

These hearings will be an immensely valuable addition to that annual report in two ways: First, they will delve into specific instances of increasing prices on a day-to-day or week-to-week basis, before they are dissolved into a longer term trend. Second, we are hopeful that they will be of much more interest to consumers than is the annual study. It is unfortunately true that the public and the press don't exhibit much interest in the relationship between food costs and farm prices until prices rise suddenly.

We recommend that when these hearings are complete, the subcommittee's findings be drawn up in a special Agriculture Committee document, and that it be given the widest possible circulation. It is our intention to assist in this dissemination in every way we know how.

(The statement of National Farmers Union and exhibits A through I, submitted by Mr. Johnson are as follows:)

STATEMENT OF NATIONAL FARMERS UNION CONCERNING FOOD COSTS AND FARM PRICES

When city consumers of our country know the facts concerning farm prices and food costs they are able to recognize the gross inequity and false reasoning in blaming farm prices for increased food costs presently being protested across the Nation. In order to get the facts, National Farmers Union wrote this week to members of the Senate Agriculture Committee voicing support of the organization for a full-scale investigation of the causes of such bread and milk price increases as we have seen in New York City and elsewhere.

On Wednesday of this week, the Senate Agriculture Committee, following our recommendation, unanimously approved Senator George McGovern's Committee resolution cause a full-scale investigation to be made of food-cost hikes.

We farmers are consumers, too. Farmers today, for example, are not able to live on produce from their farms. The age of farm specialization means that farmers buy their food in supermarkets just like everyone else. Therefore, farmers are concerned about these unjustified price increases for two reasons—they wear consumer as well as producer hats.

Secretary of Agriculture Freeman has helped to counter arguments that farm prices are inflationary and he has both recognized and explained in a most articulate manner to consumers the fact that farm prices are still too low.

For example, Secretary said in New York last Thursday, "I respectfully submit that recent modest *farm* price increases have been too long delayed.

"They are fair to the farmer.

"They are needed by the farmer.

"They are not unfair to the consumer.

"In a broad sense, they are in the national interest."

The parity ratio, a measurement of relationship between farm prices and costs, stood at 80 on July 15, 20 percent below what is recognized as representing a fair return to the American farmer.

Also, it should be recognized that for June 1966 the cost of living index for all items stood at 112.9, while food stood at 113.9, a difference of only one index point. Further, this index is based upon the three-year period—1957—when farmers were receiving only 83 percent of parity for their production. The selection of this base period is unfortunate for this reason in measuring the food index.

To further uphold the farmer and the prices he receives it should be understood by consumers that in out of only 9 of the 50-year period—1915–1965—has the food cost index been more than the index for all living items.

With these kind of facts to recount in stating the farmer's case, we welcome investigations as to the causes of recent increases in the cost of milk and bread and we welcome the opportunity that has been afforded us here today to rectify the false accusations being recklessly made against farmers at this time.

Farm price increases have accounted for only a very small part of the rise in food prices.

Most prominently mentioned in the press and on the air have been milk and bread. According to newspaper accounts, the retail price for a 1-pound loaf of white bread rose 3 cents from July 1965 to July 1966. In that same period, the farmer's return for the farm ingredient in that 1-pound loaf—the wheat, skim milk, and other farm products—rose from 3.4 cents to 3.9 cents. (See *Exhibit C.*)

The price rise to the farmer was only half a cent—compared with a reported 3 cent rise in the retail cost. Clearly, 2.5 cents of the 3 cent rise in the loaf of bread was *not* caused by the farmer.

The situation for milk is comparable.

Increases of 2 to 3 cents a quart have been reported in New York City at the retail level. During 1966 the average price paid to farmers for Class I fluid milk will increase between 40 and 45 cents per 100 pounds over last year. With 46 quarts of milk in each 100 pounds, a retail price increase of about 1 cent a quart would be justified. Anything more than this must be accounted for by other factors. (See *Exhibit D.*)

Last year the cost to consumers of farm-produced food totaled $77.6 billion, up $34.2 billion, or 79 percent, from the 1947-49 average of $43.4 billion. Of this $34.2 billion increase in the cost of farm-produced food, $27.6 billion, or 80.7 percent, was received by the marketing agencies, processors, and other components—in other words, the middleman. Only $6.6 billion, or $19.3 percent, trickled down to the farmer for the much larger volume of products he delivered to the distribution system.

The point these figures dramatize is that farm prices and farm income have lagged far behind the return to other sectors of our economy. I call your attention to the charts (appended to this statement) which I think will clarify some of the points at issue?

As compared with 1947–49, consumers purchased about 44 percent more farm-produced foods in 1965, and this larger volume of farm products included a larger proportion of meats and other more valuable animal products as compared with cereals and potatoes. Yet farmers received only 34 percent more gross income from the 44 percent larger volume of products sold in 1965 (See Exhibit A). Actually, the net income of farmers declined from $17,144 million in 1947 to an estimated $14,109 million in 1965—a decrease of 18 percent.

Since 1951 when farm prices and food prices stood at very near the same point on the index (1947–49=100), the gap between farm and retail prices has substantially widened (See Exhibit B).

The facts also pointed up in Exhibits E, F, G, and H establish, we think, beyond doubt that farm prices are not the major cause of increased food prices that we are no experiencing. On the contrary, farm prices lag far behind the increased prices of other items which make up the cost of living:

The average income of persons on farms is only two-thirds—about 65 percent—of the per capita income of the non-farm population.

Farmers who are 7 percent of the population receive only 2.9 percent of the Nation's income, excluding income from services.

Price levels of commodity prices in the market place. (National average figures, July 15, 1966).

Beef cattle were at 80 percent of parity.

Wheat was selling in the market at 67 percent of parity with certificates on domestic consumption bring produced returns to around 80 percent of parity.

Corn prices were at 80 percent of parity.

Egg prices (seasonally adjusted) were only 78 percent of parity.

Cotton, 70 percent of parity.

Rice with smallest carryover in a decade, 75 percent of parity.

Peanuts with a good workable program of supply control, 80 percent of parity.

Manufacturing milk, 88 percent of parity.

Butterfat, 81 percent of parity.

All milk at wholesale level, 86 percent of parity.

The only commodities for which farmers were receiving parity on July 15 of this year were hogs, lemons, grapefruit, and soybeans.

The declining number of farms generally, the exit of many dairy farmers and the highly selective investments of farmers remaining in business are factors which must be reckoned with if food shortages are to be avoided in the future.

Boom and bust cycles in farm prices and food costs are just as destructive on the farm as they are in the cities. Consumers have an interest in stable prices just as farmers do. I am confident also that most consumers do not want to see the farmers living at sub-standard levels. And we want consumers to be able to buy all the food and fiber they need and have the income to do so. As we have said many times; farmers and workers have mutual economic interests.

Farmers are consumers, too. As a group they are the largest consumers of hard goods in the United States. And let's face it, the price that farmers pay for these goods have gone up and prices are still going up. The fact is that with production costs on the rise, prices advances are needed just to stand still.

Now I want to turn to farmers' cost. Again let's look at the record.

In 1947 the parity ratio was 115 (1910–14 as the base period) and net farm income stood at 17.1 billion, the highest in history. In 1965 the parity ratio was 82 percent (including government payments), and net farm income was 14.1 billion. The difference in net income, 1947 compared to 1965 is $3 billion.

When you add the factor that the index of prices farmers receive today is almost the same as the 1947–49 period—actually they are down 2 percent—it illustrates the dramatic increase in production costs. Another way of saying it: if farm production costs were the same today as 1947, farmers net income would be almost $3 billion higher.

Since 1947–49 (to January 1966)

	Percent
Interest is up	436.7
Taxes are up	202.2
Wage rates are up	71.6
Motor supplies are up	25.7
Motor vehicles are up	62.8
Farm machinery is up	80.7
Farm supplies are up	15.3
Building and fence materials	32.4

The only items that have decreased are the thing farmers buy from each other. Comparing 1947–1949 to present costs:

	Percent
Feed is down (minus)	10.8
Seeds are down (minus)	2.1

Remembering that the indexes of prices received by farmers today is about 2 per cent less as 1947–49. Another startling fact emerges—Retail food prices in June 1966, were up 34 percent from this base period.

Do you know of any other major item—whether it be taxes, transportation, professional services, housing, or whatever—whose price is less today than it was two decades ago? I'm sure the answer is "no." There are no other items making up a considerable part of our cost of living that have actually *decreased* in price.

Family living items now as compared to 1947–49 are up too, as you housewives well know. And these increases are not peculiar to farmers. They affect everybody.

	Percent
Food and tobacco is up	28.9
Clothing is up	29.8
Building materials (dwellings) are up	22.4
Auto and auto supplies are up	44.2

The only way farmers can stay in business in the face of these increases in cost is to increase farm prices. Congress has recognized their plight—

in the passage of a four-year farm bill
in providing 100 percent of parity on domestically-consumed wheat
in authorizing additional export certificates on exported wheat at the discretion of the Secretary of Agriculture
establishing substitution between wheat and feed grains
extending the feed grains program
raising the wool price support
setting up Class I base plan
authorizing market orders for manufacturing milk
extending the cotton with payments.

Great progress has been made in the 89th session of Congress in the area of social welfare legislation. Medicare, an increase in Social Security payments, Federal Aid to Education (which incidentally may be the only answer to the 202 percent increase in farmers' taxes since 1947–49), rural water and sewerage facilities loans and many other worthy programs.

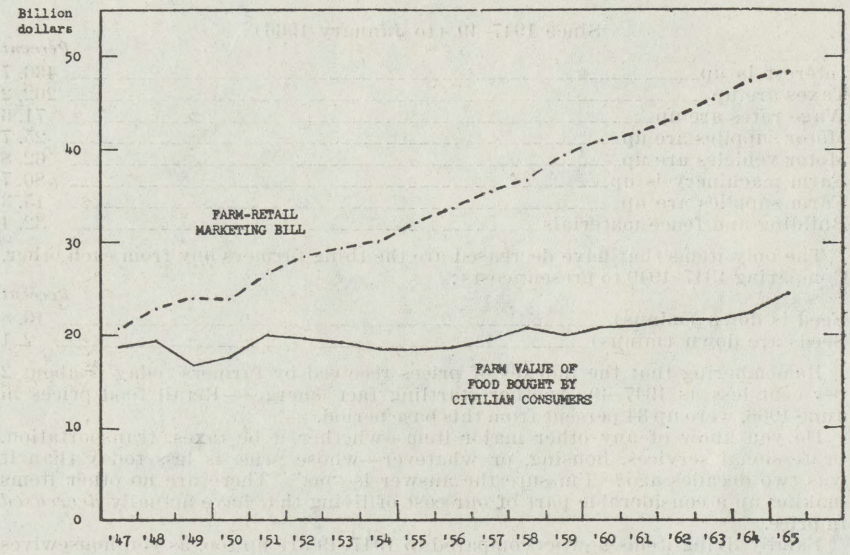
Farmers Union has the reputation of looking ahead. We have unfinished business and the number one job, as we see it, is to get farm income up to where it ought to be. Not 82 percent, not 85 percent, not 90 percent nor 95 percent, but 100 percent of parity.

Farmers with the guidance and active support of the Congress, have made progress.

Working together, farmers-consumers have made great progress in this Congress on the social welfare legislation. With continued understanding of our mutual interest and problems, we will continue to make progress.

EXHIBIT A

Farm food marketing bill and farm value of food bought by civilian consumers, 1947–65



Farm food marketing bill and farm value of food bought by civilian consumers, 1947–65

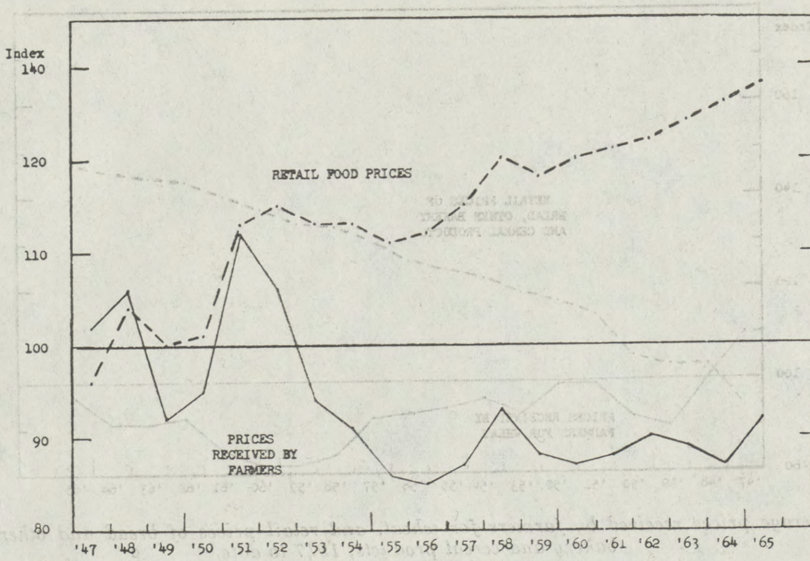
[In billions]

Year	Farm value	Farm retail marketing bill	Year	Farm value	Farm retail marketing bill
1947	$18.7	$20.7	1957	$19.5	$35.2
1948	19.3	22.9	1958	20.8	36.8
1949	16.9	23.9	1959	20.0	39.2
1950	17.6	23.9	1960	20.9	41.0
1951	20.0	26.4	1961	21.0	41.9
1952	19.8	28.3	1962	21.7	43.2
1953	19.1	29.2	1963	21.6	45.3
1954	18.4	30.0	1964	22.5	47.3
1955	18.3	32.0	1965 [1]	24.5	48.2
1956	18.7	33.7			

[1] Preliminary.

Source: U.S. Department of Agriculture Economic Research Service.

Exhibit B



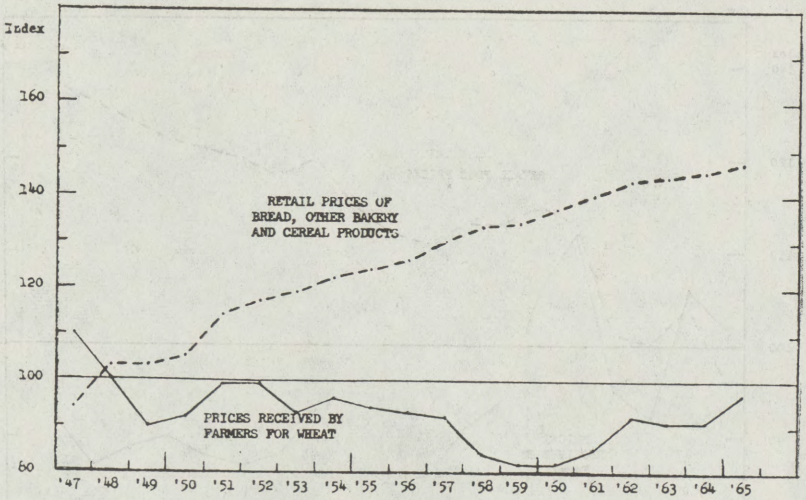
Prices received by farmers and retail food prices, 1947 to date

[1947-49=100]

Year	Prices received by farmers	Retail food prices	Year	Prices received by farmers	Retail food prices
1947	102	96	1957	87	115
1948	106	104	1958	93	120
1949	92	100	1959	88	118
1950	95	101	1960	87	120
1951	112	113	1961	88	121
1952	106	115	1962	90	122
1953	94	113	1963	89	124
1954	91	113	1964	87	126
1955	86	111	1965	92	128
1956	85	112			

Source: U.S. Department of Agriculture and Bureau of Labor Statistics.

EXHIBIT C



Average prices received by farmers for wheat, and retail prices of bread and other bakery and cereal products, 1947 to date

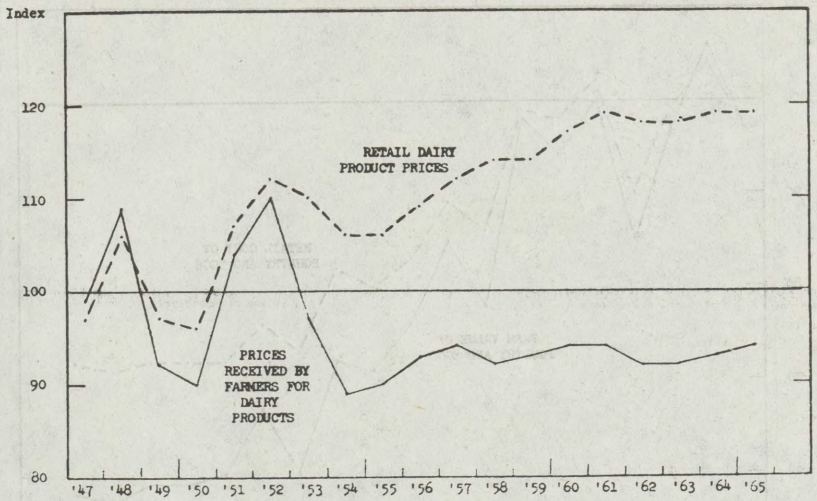
[1947-49=100]

Year	Average prices received by farmers for wheat	Retail prices of bread, other bakery and cereal products	Year	Average prices received by farmers for wheat	Retail prices of bread, other bakery and cereal products
1947	110	94	1957	92	130
1948	100	103	1958	84	133
1949	90	103	1959	82	134
1950	92	105	1960	82	137
1951	99	114	1961	85	140
1952	99	117	1962	92	143
1953	93	119	1963	91	144
1954	96	122	1964	[1] 91	145
1955	94	124	1965	97	147
1956	93	126			

[1] Including marketing certificates after July 1, 1964.

Source: U.S. Department of Agriculture Economic Research Service and Bureau of Labor Statistics.

EXHIBIT D



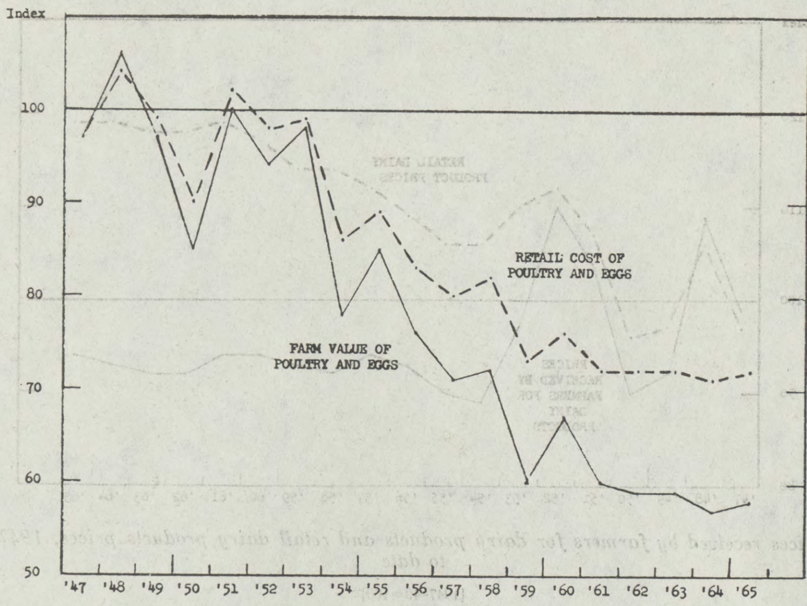
Prices received by farmers for dairy products and retail dairy products prices, 1947 to date

[1947–49=100]

Year	Dairy products prices received by farmers	Retail dairy products prices	Year	Dairy products prices received by farmers	Retail dairy products prices
1947	99	97	1957	94	112
1948	109	106	1958	92	114
1949	92	97	1959	93	114
1950	90	96	1960	94	117
1951	104	107	1961	94	119
1952	110	112	1962	92	118
1953	97	110	1963	92	118
1954	89	106	1964	93	119
1955	90	106	1965	94	119
1956	93	109			

Source: U.S. Department of Agriculture. Statistical Reporting Service and Bureau of Labor Statistics.

Exhibit E



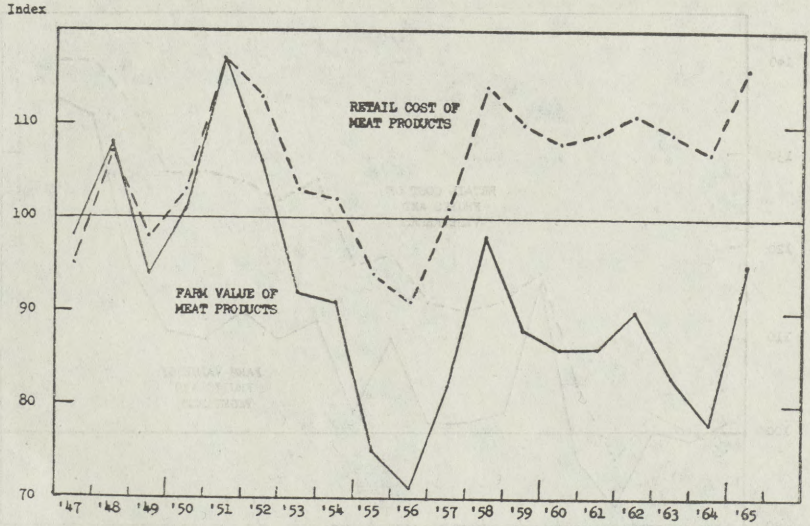
Farm value and retail cost of poultry and eggs purchased per wage-earner household, 1947 to date

[1947–49=100]

Year	Farm value of poultry and eggs	Retail cost of poultry and eggs	Year	Farm value of poultry and eggs	Retail cost of poultry and eggs
1947	97	97	1957	71	80
1948	106	104	1958	72	82
1949	97	99	1959	60	73
1950	85	90	1960	67	76
1951	100	102	1961	60	72
1952	94	98	1962	59	72
1953	98	99	1963	59	72
1954	78	86	1964	57	71
1955	85	89	1965	58	72
1956	76	83			

Source: U.S. Department of Agriculture Economic Research Service.

EXHIBIT F



Farm value and retail cost of meat products per wage-earner household, 1947 to date

[1947–49=100]

Year	Farm value of meat products	Retail cost of meat products	Year	Farm value of meat products	Retail cost of meat products
1947	98	95	1957	82	101
1948	108	107	1958	98	114
1949	94	98	1959	88	110
1950	101	103	1960	86	108
1951	117	117	1961	86	109
1952	106	113	1962	90	111
1953	92	103	1963	83	109
1954	91	102	1964	78	107
1955	75	94	1965	95	116
1956	71	91			

Source: U.S. Department of Agriculture Economic Research Service.

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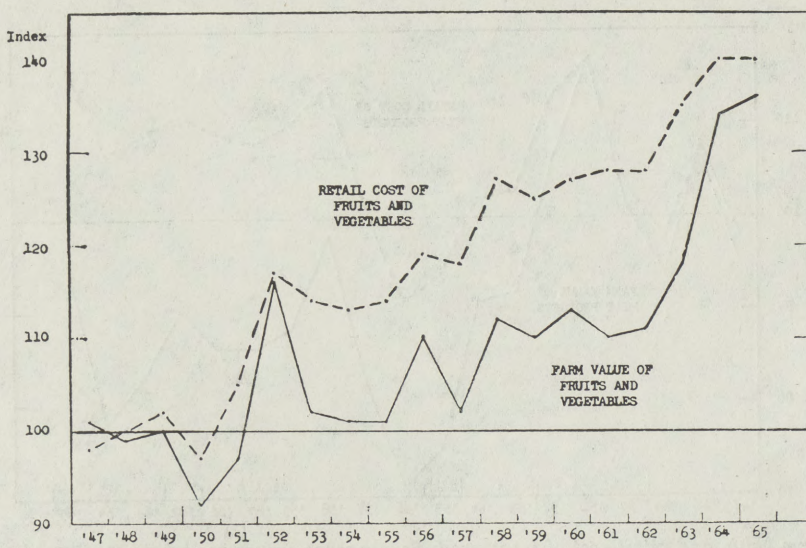
EXHIBIT G



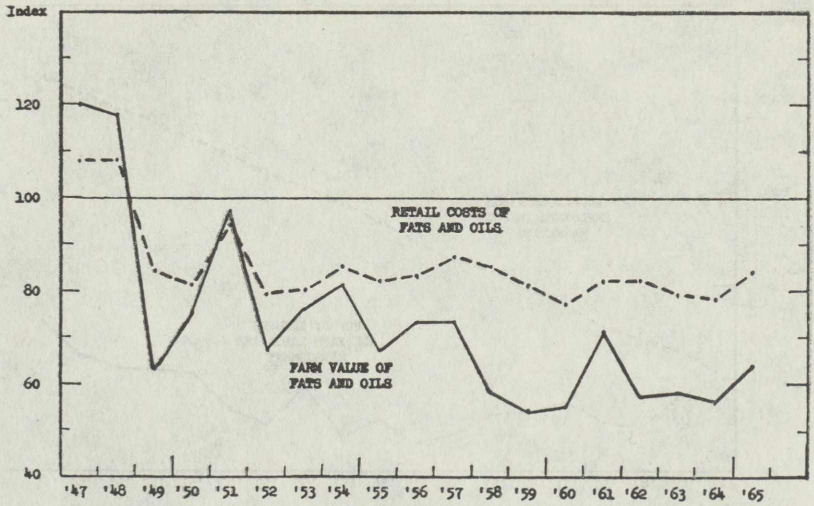
Farm value and retail cost of fruits and vegetables purchased per wage-earner household, 1947 to date

[1947–49=100]

Year	Farm value of fruits and vegetables	Retail cost of fruits and vegetables	Year	Farm value of fruits and vegetables	Retail cost of fruits and vegetables
1947	101	98	1957	102	118
1948	99	100	1958	112	127
1949	100	102	1959	110	125
1950	92	97	1960	113	127
1951	97	105	1961	110	128
1952	116	117	1962	111	128
1953	102	114	1963	118	135
1954	101	113	1964	134	140
1955	101	114	1965	136	140
1956	110	119			

Source: U.S. Department of Agriculture Economic Research Service.

EXHIBIT H



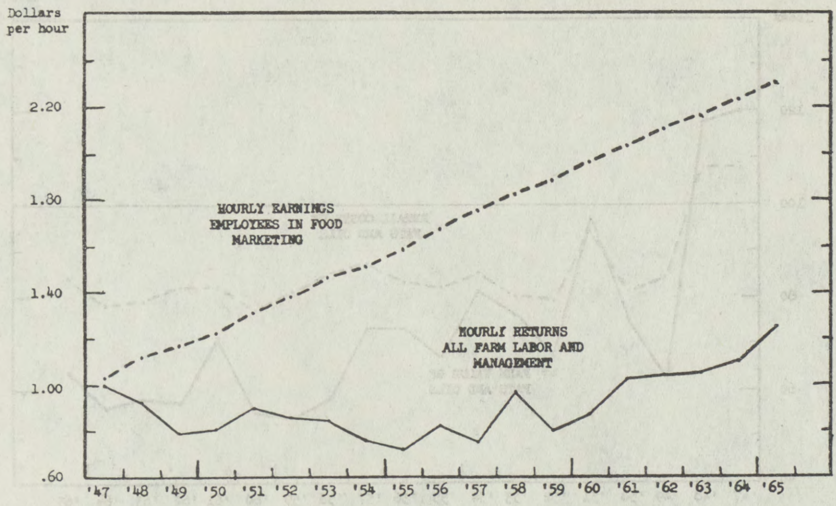
Farm value and retail cost of fats and oils purchased per wage-earner household, 1947 to date

[1947-49=100]

Year	Farm value of fats and oils	Retail cost of fats and oils	Year	Farm value of fats and oils	Retail cost of fats and oils
1947	119	108	1957	73	87
1948	118	108	1958	58	85
1949	63	84	1959	54	81
1950	75	81	1960	55	77
1951	97	94	1961	71	82
1952	67	79	1962	57	82
1953	76	80	1963	58	79
1954	81	85	1964	56	78
1955	67	82	1965	64	84
1956	73	83			

Source: U.S. Department of Agriculture Economic Research Service.

EXHIBIT I



Hourly earnings in food marketing firms and realized returns per hour to all farm labor and management, 1947 to date

Year	Realized returns per hour to all farm labor and management	Average hourly earnings of employees in food marketing firms	Year	Realized returns per hour to all farm labor and management	Average hourly earnings of employees in food marketing firms
1947	$1.00	$1.03	1957	$0.75	$1.75
1948	.93	1.12	1958	.97	1.82
1949	.79	1.17	1959	.80	1.88
1950	.81	1.22	1960	.87	1.96
1951	.90	1.31	1961	1.02	2.03
1952	.86	1.38	1962	1.04	2.10
1953	.85	1.46	1963	1.05	2.16
1954	.76	1.51	1964	1.10	2.23
1955	.72	1.58	1965 [1]	1.25	2.30
1956	.82	1.67			

[1] Preliminary.

Source: U.S. Department of Agriculture Economic Research Service.

Mr. JOHNSON. Mr. Chairman, on May 5, it was my pleasure to participate in a seminar at the Michigan State University.

At that time, I outlined briefly the history of the controversy which evolved around the bread tax charge. There were some rather interesting developments in that controversy, as the chairman is quite well aware of, and, inasmuch as I devoted considerable time trying to explain to these university graduate students what happened, I wonder, Mr. Chairman, if you would allow me to include in the record the speech that I made on that occasion.

Mr. PURCELL. Without objection, it will be made a part of the record at this point.

(The full text of the speech referred to follows:)

FARM POLICY—HOW IT'S MADE

A CASE STUDY

(By Reuben L. Johnson, National Farmers Union, Washington, D.C.)

Press reports to the contrary, the 1965 farm bill had enough votes in the House of Representatives to defeat the milling and baking industry which smeared the bill as a "bread tax." But among John McCormack's duties as Speaker is the protection of Democratic colleagues, especially freshmen, from straying into enemy territory where they could get knocked off by a Republican sniper in 1966. He protected them last week, or at least his city freshmen, when he won the first round of a fight to delete increased miller certificate payments from the wheat section of the bill.

Theoretically it takes 218 votes to pass legislation. Farmers and Freeman had 225 votes committed. Speaker McCormack wouldn't let them be cast.

The milling and baking industry launched an aggressive drive to label the wheat title of the bill as a "bread tax" on consumers and to convince Congress that the $1.27 certificate it provided would increase their operating costs by $250 million. While the milling and baking industry were hard at work, Esther Peterson, Special Assistant to the President, sent a letter to Congressman Graham Purcell, Chairman of the Wheat Subcommittee, on stationery of the Executive Office of the President which said:

"We are aware of the widely publicized predictions that this program will raise the price of bread and wheat products. It is true that the cost of wheat per a one-pound loaf would rise—about 7/10 of a cent. We also realize that any further increase in the price of such a staple produce would be unwelcome, especially by those finding it difficult to live within their incomes. Based on average consumption of all wheat products, the higher cost would be equivalent to 1.6 cents a week or 83 cents a year per person.

"We see no reason, however, why this increased cost of wheat could not be absorbed by industry. For 17 years, the farmer's return from a one-pound loaf of bread has remained at only 2½ cents. During the same period, industry has reaped the entire benefit of the increase in price from 13 to 21 cents per loaf. Surely, there is enough room to absorb this increase somewhere along the route from bakery to supermarket."

Farmers applauded.

For the first time in history, Congress has been asked by a President to set support on a farm commodity at 100 percent of parity. And the President was actively defending his position along with his staff and cabinet officers.

Farmers Union was supporting the President.

In a widely distributed release to Congress and in wheat areas we said:

"The farmer has the least bargaining power of any other group receiving a portion of the price of a loaf of bread. There is no justification for a two cent increase in the price of a loaf of bread. Acknowledging that the increased price to producers would justify about 1¢ increase in the price of a loaf of bread, the effect on the cost of bread to the consumer would be miniscule. The average consumer's grocery bill would increase only about $1.60 per year. In a country in which the expenditure for food represents only 18% of the family income on the average, there is no justification for the charges made by the Wheat Users

Committee, that the interest of consumers would be adversely affected. For the very low income group, the food stamp program passed with the support of the Farmers Union and other consumer groups, including labor organizations, would offset any adverse effect.

"The charges that only a handful of wheat growers would benefit from the program are unfounded. More than 85% of all wheat acres are signed up in the 1965 wheat program with more than 50% of wheat growers participating. With an increase in certificate value to represent 100% of parity returns on wheat consumed domestically, it is anticipated that 90% of wheat acres will be in the program.

"It is expected that between 60 and 70% of wheat growers would be participating in the program in future years. Therefore, a minimum of about a million wheat growers would be benefiiting from the wheat program under attack by the Wheat Users Committee.

"One can speculate only on the real objective of the Wheat Growers Committee. The purpose of the charge that the wheat program now under consideration by Congress would increase bread prices 2¢ per pound loaf may be that of justifying an overcharge to consumers for bread of 1¢ per loaf. If this is the purpose of the Wheat Users Committee it should be exposed for what it is—an attempt to foster upon the consumer an overcharge while placing the blame on the wheat program.

"We urge that the National Food Commission begin an immediate investigation of the wide variation in bread prices between cities and areas of the United States and to determine what increase in bread prices can be justified under the wheat program being considered by Congress.

"We further urge the supporters of other legislation of benefit to consumers to consider their interest in these areas before being falsely led into joining a campaign financed and supported by those interests that in the past have not proven friendly to the broad range of legislation that is of direct benefit to consumers."

Since 1947 the miller's share of the price of bread has gon up 50 percent, the baker's up 100 percent and the retailer's up 103 percent. Meanwhile the farmer's share has gone down eight percent. Annual food expenditures per person have risen $105 since 1950 but of the increase, the food industry and other marketing agents have received $104. The farmer got the remaining dollar. The wheat certificate plan would allow farmers an increase of seven tenths of a cent for the wheat used in a pound loaf of bread.

To appreciate what happened in the House one must understand not only Speaker McCormack's anxieties, but the mysterious ways of Washington lobbying. With the help of a newly formed Wheat Users Committee, the bread industry carried its case to Congress. The Wheat Users Committee was represented by Maurice Rosenblatt, who is also Chairman of the Board of Advisers of the National Committee for an Effective Congress, which endorses and raises money for the campaigns of selected liberal Congressmen. Mr. Rosenblatt is a registered lobbyist for National Council associates (same address in Washington as the Committee for an Effective Congress). And National Council Associates registered last May 27 as lobbyist on behalf of the Wheat Users Committee, which committee is not itself registered at all.

But it must be borne in mind that the charges made by the Wheat Users Committee parallel those made by the Farm Bureau.

Congressman Bob Poage (D-Tex.), Vice Chairman, House Agriculture Committee, charged the American Farm Bureau is creating a "phony issue" in criticism of the Administration's proposed wheat legislation.

"It's a sad situation," Congressman Poage said, "when for the first time a wheat price increase benefits the farmer, a farm organization has to rush in and oppose it. The Farm Bureau criticism is focused on the expected one-cent increase on a loaf of bread when this bill to raise the farmer's income from wheat is passed."

Pointing out that bread prices have increased in each of the last 14 years while in nine of those years wheat prices when down, Mr. Poage said, "I would like to know why your organization wasn't protesting then?"

"The truth is," Congressman Poage told the Farm Bureau witness opposing the 100 percent of parity feature for domestic wheat, "your organization is creating a phony issue in its annual effort to defeat the Farm Bill."

All other farm organizations supported this section of the bill.

City Democrats, already lined up to vote for the bill began to waiver. The political threat they thought they faced had to do with the so-called "bread tax."

There was confusion about the Farm Bureau supporting the Wheat Users Committee. Farm state Congressmen and the "dirt farmer lobby" turned on a major drive to clear the air on Capitol Hill of the putrid fumes left by the Wheat Users Committee and the Farm Bureau.

Drew Pearson reported meanwhile as follows:

"A lobbying battle of great interest to housewives is now being waged over the future price of bread. It will also affect more than a million farmers.

"About 50 big baking companies, plus two baking unions, have retained as their lobbyist Maurice Rosenblatt, mainspring of the Committee for an Effective Congress, who has raised thousands of dollars to elect new Congressmen. He has helped finance some of the most crusading liberals in Congress. Naturally they feel under obligations to him.

"However, Ronsenblatt is now working to defeat the Johnson Administration's farm bill as the registered lobbyist for such giants of the baking-biscuit world as National Biscuit, Continental Baking, Ralston-Purina, United Biscuit, Pillsbury Flour, Sunshine Biscuits, Kellogg, General Baking, Interstate Baking, the Bakery and Confectionery Workers Union, the American Bakery and Confectionery Workers-International and about 40 companies associated with the baking industry.

"Rosenblatt, an able young man who has led many important battles for the public interest, makes no secret of his campaign to defeat the Johnson farm bill.

" 'I am the registered lobbyist for the Wheat Users Committee,' he says, 'I am not wearing my hat as a member of the Committee for an Effective Congress. I cleared my work, however, with the Committee.' "

In spite of the farmer-lobby, the City Democrats continued to waiver. By mid-July it was estimated that the bill lacked as many as 40 votes for passage, at which point Jim Patton, then President of Farmers Union, and all of his staff began to meet with labor groups. Secretary Freeman, a product of Minnesota's Democratic-Farmer-Labor Alliance, also stepped up his efforts to win labor support.

City Democrats needed farm votes if they were to repeal Section 14(b) of the Taft-Hartley Act. Farm Democrats needed city votes for the farm bill. The advantages of marriage were obvious.

The vote came first on 14(b) and it was repealed by a margin of 18 votes in the House. Northern farm Democrats voted for repeal by a margin of 79–6. In return, they expected support on the farm bill, and got it. Farm groups (Farmers Union flew six plane loads of farmers to Washington) canvassed the House warning the city liberals not to be led astray by claims of the baker-miller lobbyists.

Profits were never higher for the millers. Among the top four, Kellogg after-tax profits increased between 1951 and 1964 from $8.3 million to $32.6 million; General Mills from $9.6 million to $20.4 million; Quaker Oats from $7.5 million to $15.2 million; and Pillsbury from $3.2 million to $10.4 million.

Industry cries that the price of bread would have to be raised at least two cents were unfounded. The cost of wheat in a loaf of bread has remained about three cents for many years, though the cost of bread has risen between six and eight cents since 1951. They pointed out consumer food costs had risen 26 per cent in the last 17 years while farm prices went down 15 percent, thus indicating the nebulous logic of tying consumer costs to farm prices.

House debate on the bill began August 17. The previous evening, at a meeting with McCormack, Secretary Freeman told the Speaker the bill was assured of at least ten more votes than necessary for passage. But the Speaker backstepped. The bread tax scared him.

Using a borrowed mink collar for illustration, Republican Representative Albert Quie of Minnesota said Democrats were helping the rich by reducing the cost of mink coats with the excise tax repeal, while burdening the poor with a costly bread tax.

McCormack told Freeman that regardless of prior commitments given by urban Democrats, he would not allow his city freshmen to vote for anything that would give Republicans some deadly ammunition for the 1966 campaign. He proposed instead, that the 50-cent increase in wheat certificate payments be taken off the miller and obtained from the general treasury; in effect, a capitulation to the bread industry but leaving 100 percent of parity untouched.

Farm representatives met hurriedly with Agriculture Committee leadership. A compromise was reached. Secretary Freeman accepted the plan of the Speaker as did the President.

The House voted 224 to 169 against recommital and 221 to 172 for the bill on final passage.

The Senate concurred in the change made by the House.

Mr. JOHNSON. That concludes our statement.

We will be most happy to try to respond to any questions you have.

Mr. PURCELL. Are there any questions by any members of the Committee?

There do not seem to be any questions from my colleagues at this time.

I would just like to go over with you one set of figures.

They are in regard to the price of wheat being advanced because of the July carryover.

I have a chart that shows the carryover of stocks on July 1, in the period 1948–49, which was a total of 186 million bushels of carryover. I do not have the figures for July 1, 1966, but in 1965 there was a carryover of 818 million bushels, and if I remember the figures correctly now, it is still in the neighborhood of 600 million. Even if it were down from that the carryover now is not anywhere near what it was in 1949 by any stretch of the imagination.

Mr. JOHNSON. I do not recall the 1949 figures, Mr. Chairman, but I do not think so. After all, when you think about the fact that about 550 million bushels constitute our total domestic disappearance, you see just what kind of a situation we are in. This certainly would not, from the figures that you have just cited, change the claim by some of the representatives of the middlemen in this industry that the shortage of wheat has caused it. That is the significant aspect of these figures, I think.

Mr. PURCELL. Thank you very much.

Mr. JOHNSON. Thank you.

Mr. PURCELL. Are there any other questions?

If not, we thank you again, sir.

We have invited all of the national farm organizations, and the only name that I had for today, ready to testify in this regard, was the National Farmers Union.

Are there any other folks in the room who want to be heard today and are ready to testify at this time?

If not, we will recess until 10 o'clock tomorrow morning, at which time the National Association of Wheat Growers will be the first witness, and then the National Grange the second witness.

The committee stands in recess until 10 o'clock tomorrow morning.

(Whereupon, at 11 a.m., a recess was taken until 10 a.m., Tuesday, August 9, 1966.)

BREAD PRICES

TUESDAY, AUGUST 9, 1966

House of Representatives,
Subcommittee on Wheat of the
Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in room 1301, Longworth House Office Building, Hon. Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell, Foley, Redlin, Bandstra, Callan, Belcher, Findley, Dole, and Hansen of Idaho.

Also present: Representatives Poage, Hagen of California, Greigg, and Mrs. May; Betty Prexioso, staff; and Fowler C. West, staff.

Mr. Purcell. The subcommittee will please come to order.

The first witness we will have this morning will be Mr. Paul Findley, our colleague, followed by Mr. Harry Graham of the National Grange, and then Mr. George Meeker of the National Association of Wheat Growers.

We will be glad to hear from you now, Mr. Findley.

STATEMENT OF HON. PAUL FINDLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Findley. Mr. Chairman and members of the committee, I appreciate this opportunity very much.

On July 28 I introduced a bill, H.R. 16635, which would repeal the wheat processing charge commonly known as the "bread tax."

Contrary to widespread misconception, the bread tax was not repealed in the last Congress. Judging from editorials and news stories that I have read in the periodicals of this country, the assumption seemed to be that the bread tax was defeated when the omnibus farm bill was reported by the House last year, but that was not the case.

What the Congress did was to reject an increase in the bread tax, but the original bread tax which had been placed in the legislation the previous year remained.

The bread tax was the very first revenue measure that was requested under the administration of President Johnson, enacted in 1964 and is still on the books. It was the very first time that a farm program had been financed by a processing tax. It was selective, to be sure, because the wheat to be processed for human use was to be taxed. Wheat for baby foods, for example, was to be taxed, but wheat to be used for chicken feed or hog feed was to be exempt from the taxation. So it was selective.

But it amounts to a considerable item, even in the form in which it remains in the legislation. The action of the Congress last year defeated a move which would have increased the amount of the bread tax from 75 cents to approximately $1.32, depending upon the level of the parity. That means that the legislation still in effect does contain this processing fee and this amounts to a bread tax for the entire Nation, amounting to something of about $375 million a year.

It takes the form of a processing charge made against the wheat that is milled for human consumption. The tax is 75 cents on each bushel of wheat and, of course, becomes a part of the cost of the ingredients for bread and other flour products.

Figured in terms of a 1-pound loaf of bread, the bread tax which is in effect right now amounts to about 1.4 cents per loaf of bread.

Due to rising costs in manufacturing, including wheat flour prices, bread is up 1 to 2 cents a loaf, and this increase, curiously, is almost precisely the value of the bread tax.

During consideration of last year's farm bill, I offered an amendment to strike the bread tax completely, not just the proposed increase but the entire bread tax, and I argued at that time that the bread tax hit the low-income people the hardest, because bread and other wheat poducts become more important diet items as a family's income goes down. The Department of Agriculture statistics show dramatically that the volume of wheat products in a person's diet responds in an inverse ratio to income. For example, a family with an income per annum under $2,000, for the average of the United States, uses 3.83 pounds of wheat each week. A person in the income category of $8,000 to $10,000 per year uses 2.28 pounds of wheat per week. That is quite a dramatic contrast with the use of wheat by a family with an income under $2,000.

I have before me a table which indicates a graduated stepup of the use of wheat between those figures. In percentage of income spent for wheat products the same ratio is indicated. For a family with an annual income of under $2,000, 6.6 percent of the amount that is spent for food goes for wheat and wheat products. In the $8,000 to $10,000 a year annual income category, this percentage drops to 4.6 percent. That means that this bread tax, set as it is upon the users of wheat, is perhaps the most regressive tax that this country has ever had, because it hits hardest the low-income people and the elderly people who are on fixed incomes and are less able than others to fight back against inflation. In effect, it is really an antipoverty program in reverse.

Of all of the multitude of farm programs that we have had through the years, the wheat program is the one and the only one which is financed in great measure by a processing tax. We might contrast it, for example, with the cotton program, a program, which like the wheat program, involves direct payments to the producers—massive multimillion-dollar payments in some cases—and yet the cost of the cotton program is not covered in any degree by a processing tax. It is paid for out of the general revenues, and this, really, should not be surprising, because all other farm programs in our history have been similarly financed.

I have never been able to comprehend why daily bread should be singled out for this harsh treatment. The cost of the wheat program, like that of all other programs properly should be spread among all taxpayers and not loaded unfairly upon those least able to pay.

And that is why I do invite the attention of this subcommittee to my bill, H.R. 16635, which would have the effect of dropping the requirement presently in the legislation under which the processor of wheat is required to pay 75 cents a bushel for the wheat produced for human use.

It might be of interest to the committee to reflect what might have happened to bread prices and flour prices, generally, if the 57-cent increase in the bread tax had been enacted last year, instead of being rejected.

A bushel of flour produces about 42.3 pounds of flour, and dividing that into 57 percent, produces a figure of 1.3 cents for each pound of flour that is milled from wheat. That represents the added cost which would have been imposed as the result of the increase in the value of the bread tax last year.

Now, translated into terms of the cost of flour, what would it mean?

The current price of flour at Safeway stores here in Washington is about 11 cents a pound, and if we had enacted the increase in the bread tax last year, that would have meant an increase in the price of the cost of the flour amounting to 1.3 cents, and 1.3 cents translates to a rather substantial portion—about 12 percent—of the price of flour on the grocery shelf.

Here we are concerned, primarily, I guess, with bread prices, but a good many people buy flour and bake their own bread and other flour products in their homes out of necessity and we should give some thought to them as well.

I estimate that the bread tax now in effect, which my bill would repeal, amounts to the equivalent of a 15-percent sales tax on flour—I repeat, a 15-percent sales tax on flour.

Now, if the Congress would impose a direct sales tax of 15 percent on flour and—say—4 or 5 percent direct tax on bread, I am sure the uproar of complaint from the homemakers across the country would be overwhelming and would quickly lead to a repeal of the taxes.

This present tax, of course, is indirect. It is hidden. It is imposed upon the processor, and, therefore, does not come dramatically to the attention of the consumer.

I would be glad to answer any questions, Mr. Chairman.

I appreciate this opportunity.

Mr. PURCELL. We thank you, Mr. Findley. I will just point out to you, as you will probably remember, that in 1963 or 1964 when this bill that you refer to as the "bread tax" went into effect, wheat prices dropped almost exactly the amount of the certificate. You remember that, do you not?

Mr. FINDLEY. I do not dispute that fact, but I am not really aware of it.

Mr. PURCELL. And that actually the cost of the wheat to the mill remained constant in round figures, to the transition, going on to the certificate fund. You remember that, do you not?

Mr. FINDLEY. If you will permit me to respond, Mr. Chairman: I have no doubt but what the wartime inflationary pressures that exist throughout our economy today will continue to press flour prices up unless something is done to keep the general price line stable. I do feel that the repeal of the bread tax would eliminate a substantial cost to the miller and, hence, to the baker of bread, and should lead definitely to a price reduction of a cent and a half on a loaf, that is, for a pound loaf, lower than would otherwise be the case, but I cannot deny that the marketplace forces are running rather wild today, and I do not see much change in sight.

Mr. PURCELL. Of course, my point is that as of the time when the wheat certificate plan went into effect, the price of wheat had been about $2, and when the wheat program was changed the base price of wheat went to about $1.25, and with the 75-cent certificate, it made it $2 for wheat that the mill paid at that time, being the same price that they had paid before this certificate plan went into effect.

Mr. FINDLEY. Is the gentleman suggesting that the cost of wheat, including certificate, at any time after the certificate went into effect was as low as $2 a bushel? I was not aware of it being that low, if, in fact, it was. I thought that the lowest point was about $2.13.

Mr. PURCELL. I have the Department of Agriculture figures here, and for May it was $2.03, and it dropped down to $1.53 in June; as you know the crop year ends at the end of June, and the average price for the year of 1963–64, that is, July 1963 to the end of June 1964, averaged $2.03. This is on No. 2 Red Winter wheat, at the Chicago market. This, of course, was the price that it had been before and it was about the price afterward.

Mr. FINDLEY. Am I correct, though, that that average you cite is for a period which includes both the certificate period and a noncertificate period?

Mr. PURCELL. This period included 2 months of the certificate period.

Mr. FINDLEY. Right.

Mr. PURCELL. Now, the average cash price for the year 1964–65, according to these figures, was $1.49. So that the average had been reduced by about 50 cents on the average.

Mr. FINDLEY. What the miller has to pay is the market price of the wheat plus the certificate which is presently valued at 75 cents.

Mr. PURCELL. At the time the certificate went into effect the price in round figures remained constant, did it not?

Mr. FINDLEY. Frankly, I am not aware of that. My understanding is that the lowest price, after the certificate went into effect, that the miller had to pay was $2.13. I may be in error on that. Of course, I will not dispute the gentleman's figures.

Mr. PURCELL. That is all I have

Do you have any questions, Mr. Belcher?

Mr. BELCHER. No.

Mr. PURCELL. Do you have any questions, Mr. Redlin?

Mr. REDLIN. I recall that when we were discussing the Farm Act of 1965, the argument being made that if it were not adopted it would prevent bread from going up 1 or 2 cents, but it went up anyway. Now, you are suggesting that a solution is to take it out of the farmer again?

Mr. FINDLEY. As I tried to make clear during the debate on the bill, it would reduce one of the major items of ingredient cost. Whether this would result in a net cost which would be down or up, I could not prejudge it. I believe that the record will show that I never did contend that this would definitely reduce the price of bread. There is no way to anticipate what competitive market forces will do, especially in a wartime period such as we are in, but, definitely, a cent and half a loaf is a major ingredient cost; and given the highly competitive situation which prevails throughout the milling industry and the baking industry, we could reasonably expect that the price of bread, without the bread tax, would be lower than it is with the bread tax.

Mr. REDLIN. Mr. Findley, you referred to $375 million being presently the amount of money that is gained under the processing fee.

Mr. FINDLEY. Yes.

Mr. REDLIN And this goes directly to the producer, to the farmer. It is the protection whereby he gets 75 cents more per bushel.

Mr. FINDLEY. No, there is not that direct relationship. It is true that the processing tax is provided in the same legislation which authorizes a payment to the farmer, but the payment would go on regardless of how much revenue comes from the bread tax.

Mr. REDLIN. Exactly, my point is that you are asking that the general budget and the Treasury of the United States fork up another $375 million.

Mr. FINDLEY. Very definitely, that would be the result, and I tried to make that clear in my first paragraph. I think that if we are to have a farm program for wheat, which includes payments, then the cost of the program should be borne by the general revenues, just as the cost of every other farm program has been throughout our history. For us to discriminate in a program which involves daily bread and which, obviously, hits the poor people the hardest, to me, is unconscionable.

Mr. REDLIN. Do you believe, Mr. Findley, that we would get $375 million appropriated by the Congress now if we were to subscribe to the thing that you are talking about here.

Mr. FINDLEY. I have no way to predict that. It was a rather narrow vote which first authorized this wheat certificate program back in 1964. It was bunched in with a lot of other programs which somewhat diluted the opposition to it in 1965. If it had been presented on its own merits, it might well have suffered a setback or major alteration. I would hope that would be the case. My point today is to try to emphasize the inequity of what amounts to a bread tax and to suggest that if we are going to have this payment program for wheat that we ought to finance it out of the general revenues, like we do other programs now on the books.

Mr. REDLIN. One more question of Mr. Findley.

I do hope that in your bill—I do not happen to have a copy of it right in front of me right now—you provide budget assurances. I see only in that bill a revocation of this tax.

Mr. FINDLEY. That is true.

Mr. REDLIN. There would not be any other provisions to protect the farmers' income. My people and myself personally are deeply interested in seeing to it that the return to the farmer lives up to the agreement to have 100 percent of parity on domestic production.

Mr. FINDLEY. I assure the gentleman that the effect of this bill of mine would only be to remove the requirement that the miller buy a certificate. It would not adversely affect in any way other provisions of the law under which payments are made to the farmer.

Mr. REDLIN. Are you prepared, Mr. Findley, to support a $375-million appropriation to make sure that this commitment goes to the farmers of America?

Mr. FINDLEY. In effect, in introducing H.R. 16635, I propose just that. Under it we would shift the cost of the wheat program to the general revenues, instead of singling out daily bread.

Mr. REDLIN. I am glad to hear you say that, but I do not see it in your bill.

Mr. FINDLEY. You will see it in my statement.

Mr. REDLIN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mrs. May, do you have any questions?

Mrs. MAY. No.

Mr. PURCELL. I have no further questions. Thank you.

Mr. FINDLEY. Thank you.

Mr. PURCELL. We will call as our next witness Mr. Harry L. Graham of the National Grange. We will be glad to hear from you now.

STATEMENT OF HARRY L. GRAHAM, LEGISLATIVE REPRESENTATIVE, THE NATIONAL GRANGE

Mr. GRAHAM. Mr. Chairman and members of the subcommittee, I wish I had had the opportunity to cross-examine Congressman Findley as he frequently cross-examines me. [Laughter.]

My name is Harry L. Graham, and I am the legislative representative of the National Grange.

The National Grange is pleased to appear before you today to discuss the increased cost of bread to the American consumer. For too long, the farmer has been the scapegoat for rising food prices. We wish to express our appreciation to you for you investigation of this subject and for giving those representing the American farmer a chance to defend him against these unjustified attacks.

Without a doubt, the American consumer is the benefactor of the world's best quality food at the lowest prices. Today, the average American family spends about 18 percent of its aftertax income on food as compared to 26 percent in 1947. The time has come for the American consumer to realize the importance of an adequate income for farmers if he is to continue to reap the rewards of the farmer's production.

Farm income is still only 60 percent as high as that received by other segments of the economy for comparable capital investment and labor. If we are to maintain adequate production to meet our domestic needs, our export commitments, as well as produce to help feed the hungry peoples of the world, we must provide a sufficient economic incentive for our younger rural generation to stay on the farm in lieu of other employment alternatives. If we cannot do this now, the American consumer will be the real loser by way of a vastly accelerated price structure for farm commodities, a loss of valuable export markets, and an increasingly difficult balance-of-payments problem.

However, only a small portion of the increased cost of food at the marketplace can be attributed to increased farm prices. For example, increased farm prices could possibly justify a one-half cent or, I would say, a 1-cent increase in a pound of bread, yet the cost per pound of bread in some areas has increased up to 3 cents a pound.

The Grange has never opposed any plan to return legitimate profits to the processor of any commodity. However, we do object when the American farmer is blamed unjustly for increases in food costs.

May I interject at this point that we are not proposing in our testimony, Mr. Chairman, an attack on the profits of the milling or the baking industries. Frankly, I think that even a casual study of their financial statements indicates that their return is not excessive for the capital invested. We do not believe that a rollback that some people are talking about is practical. It is conceivable that it could, possibly, work. We have seen a rollback in farm prices. We saw it for 12 years, and anybody who thinks that the cutting off of the 75-cent "processor tax"—and that will include my friend, the Congressman from Illinois—should look at the record which shows that when we did reduce the price of flour consistently during those postwar years, the price of bread went up consistently during that time.

I simply do not believe that even the repeal of the 75-cent certificate would make any difference.

The testimony that was given before this committee during last year's hearings and the hearings the year before, from the representatives of the milling and the baking industries did not indicate that that they thought that would be the case either.

We have so many built-in costs that have no relationship to the cost of the wheat—the cost of labor is one of them. I would suggest that the Congressman, if he is really interested in reducing the cost, give thought to reducing the level of the minimum wages, or that we change the labor relations law so that the union shop could not bargain for higher wages for the employees. This has been a contributing factor of no small consequence.

I recall that last year, when we were in debate on the same issue, the bakery unions' journal announced that they would join in this so-called Wheat Users Committee to try to keep down the cost of wheat; and at that time they also were announcing a substantial increase in the price of labor. They had just concluded negotiations for a labor contract with a number of major bakeries.

You cannot separate these two in the pricing of bread. We are not attacking the increase in the labor cost. We are simply saying that if somebody is going to attack the cost of bread, they had better attack it all the way down the line. That includes not only wheat, it includes labor, it includes transportation, it includes all of the 13 or 18 categories of charges that are involved in the production of bread, and, obviously, this is completely unrealistic. It could not be done even if we wanted it done. Therefore, what we must do, I think—and this is a considerably more mature approach to it—is to recognize that the American consumer should pay for his food.

I know that there are some people earning under $2,000 who have difficulty at this point. I also know that there is no way that we can profitably price the products of agriculture so that they will be generally available in sufficient quantities for people of that wage level. We have other ways of spreading that cost, and we are spreading it to the total of our economy by increasing welfare programs, and they are pretty general. And anybody with a very large family, making an income of under $2,000 a year can, in most States, be eligible for some relief. These programs are widely spaced across our country.

What we are trying to say here, in terms of profits and costs, is that from the standpoint of a farm organization we would be most reluctant to attack the level of bread at the present time, because any reduction in the cost of bread automatically goes all the way down the line to the farmer. There is no place that it can be stopped. The farmers get the reduction in the price, and to lower this by a cent and a half to 2 cents, once these companies have already granted the wage increases that are a part of the general expanding economy, it means that all of these wage increases also would have to come out of the farmer's pocket. There is no place that we could stop, unless we are prepared to roll back the wage increases. This, of course, is impossible. We cannot even keep them from going forward. What we are talking about here is an extra cost to the average family of some $7.50 to $10 a year; yet we have a major labor union at the present time that still refuses a $30-a-week increase as a basis for settlement of the airlines strike. This is where the inconsistency is, in our judgment. We are grateful to the Secretary of Agriculture for bringing this matter to the attention of the FTC and look forward to hearing its report. However, this will not be a new subject for the FTC.

We are looking forward to hearing that report, not because of what we think we are going to find in terms of major profits or gouging of the public, because we think there are some other things involved in this, and I will get into those just a little later.

What we are concerned about is something like the situation last week when a representative of a large bakery firm appeared on "Today," on NBC, and stated that the increase in the cost of bread was due to farm prices. In our judgment, he was misleading the public in the same manner as the Wheat Users Committee did last year.

Mr. Chairman, I had stronger language than that until my secretary took it out. [Laughter.]

That is one of the reasons I am grateful for this secretary—she keeps me from saying things that I ought not to say—and sometimes she does not.

After the passage of the 1964 farm bill, bakery representatives were justifying the increase in the price of bread on the increased cost of wheat. The record shows clearly—and this is what the chairman said a while ago—that the support price dropped by the amount of the certificate and the quoted costs of flour in New York remained basically the same as in the previous year; in fact, it was lower during much of the year. Then it edged up about 6.05 percent as it had been running previously. I would say that I think this was bad business on the part of the millers. They think it was bad business now. The situation was extremely competitive among the millers during this time, and we saw some of the major millers closing large numbers of their plants, because of the competitive situation. They might as well have raised the price of flour during that time to reflect some other increased cost of production besides the cost of flour, but they did not.

And so we have a little more raise this year than we should have had normally, if they had raised their price of flour to reflect these other increased costs during the previous year. So, the increase that we are getting at the present time—and flour now is about $7.87 per hundredweight on the New York market, which does not contrast with the 11 cents that Safeway is getting per pound; $7.87 per hundredweight would be 7.87 cents per pound. So, apparently, it cost 4.2 cents to package flour in this 1-pound bag.

The point I am making now is that this increase in cost of flour could well be justified if anybody looks at the earnings of these companies. What we are trying to say is that the increased cost of wheat to these millers can be justified on exactly the same economic basis so far as the farmers are concerned. They, also, have increased costs. They have all of the increased labor costs that are part of our expanding economy which automatically become our costs. The profits of everybody who services the products are costs in the final analysis. For example, the $2,000 tractor of 14 years ago now brings $5,000. Who is going to roll back that cost? That is a major contribution to our costs, and we are not increasing our income in relationship to the total increase of our economy of some 3 percent, despite these increases. Part of this has been sheer misrepresentation of what is happening in terms of prices.

I will get to that in just a little bit.

In the name of protecting the consumer, the combination of bakers and labor unions serving the industry successfully ran the bread tax lobby against the increased value of certificates to bring the price of wheat consumed for food to parity. As a result, the Government granted them a $300 million subsidy and thus transferred the cost to the taxpayers. The bakers then proceeded to raise the price of bread by 2 to 5 cents per loaf. Was this additional increase also in the interest of the consumer?

In the long run, I would say "yes," because only a profitable business can stay in business. The only way the consumer can be served is by all of those rendering services that are going into his food costs to make a profit. The level of the profit, I think, could properly be the subject of a detailed study, but we would not be involved in any attempt to remove profits or to lessen them if this lessened the ability of any segment of our economy to serve, no more than we are willing to do the same to agriculture.

This is not the only example of this kind of action to blame increased prices on the farmer. The shoe manufacturers did the same thing after a reasonable recovery in hide prices. Again, in the name of the American consumer, they convinced the Department of Commerce to place a ceiling on hide prices far below the old OPS ceiling by using an export embargo law designed to prohibit needed material from being exported. This was done despite the fact that the domestic market never claimed it needed more than two-thirds of the hides produced in this country. Having attained their objective of cheap hides, they raised their shoe prices as they had intended all along.

While I was in Denver a month ago, milk prices rose 5 cents a half gallon. The justification was that labor costs had increased 4.7 percent. The price raise was 10 percent. There was no increase to the farmer.

In the New York metropolitan area, milk prices were raised 1 to 2 cents per quart when the price to the farmer was increased by 1 cent per quart. When the price increase to the farmer was reduced by 60 percent, the price remained the same.

When the price increase to the farmer was reduced by 60 percent, as I have stated, or 22 cents, the price remained the same as it had when it had been up, anticipating this.

The story of constantly increasing costs of bread and milk since the end of the Korean war, despite the declining cost of the raw materials, has been repeatedly told.

All of these increased prices may have been justified by economic factors within the industry, although it seems a bit unlikely. However, to say that they are due to increases in farm prices is a deliberate attempt to mislead and misinform the American public and place the blame on the segment of our economy least able to bear the burden.

While we are talking about some poverty people, the fact is that 50 percent of them are in the rural areas, and they also buy bread.

Had there been an honest explanation of these price increases in the past, we would be less suspicious of their justification today. Again, let us look at the record.

There has been a pattern of monopolistic price fixing and organization in the bakery field which is revealed by the numerous actions taken by the U.S. Government against the bakery chains. Last year, the Grange issued a paper which detailed the illegal actions of these companies. We would like to include this in the record today.

I would like to read into the record a part of this paper of last year.

We note that on July 29, 1966, there was a consent decree applied against American, Ward, Derst, Flowers, and Southern Bakeries protecting Government and public interests.

We also note that this consent decree did not apply to the civilian. It was largely gained because of the price fixing in regard to a military establishment.

This was filed in the U.S. district court in Jacksonville, Fla., by Attorney General Katzenbach in 1965.

All were restrained from antitrust activities.

I would point out that this judgment also recovered $44,000 for damages.

We note that Russell J. Hug, who was executive vice president of Ward Foods, Inc., was at the same time a member of the executive committee and a director of the General Baking Co., the third largest bakery in the Nation, and the director of General Baking Co. subsidiaries, Van de Kamps Holland Dutch Bakers, Inc. and Eddy Bakeries Co.

This appears to be a clear violation of the prohibition against interlocking directors in the antitrust laws.

At this point, it would be interesting to point out that Ward is the fifth largest bakery, and General Baking Co., I think, is the second largest bakery in the Nation.

I also noted in last year's Standard and Poor's Industrial Report that Ward Bakeries owned 9,200 shares of American Bakeries, and this is 9 percent of the 98,600 preferred shares. Now, this relationship between American and General and Ward represented a total of $580,443,326 of sales in 1964, and net earnings totaling $6,189,355. This is not an impossibly large income but they operate 131 bakeries with 206 distribution centers with huge fleets of trucks in almost every State in the Nation, and they operate jointly in many States.

The totals of these three companies make them first in sales and second in earnings of the major bread baking companies. The possibility of the repetition of the Jacksonville, Fla., incident is frightening to say the least and should receive the undivided attention of the Justice Department, until the question is resolved to the satisfaction of the consuming public.

I do not have time to go through all of the earnings and all of the financial statements this year as carefully as I did last year after this hearing was called. I did notice, though, that in the 1966–67 directory of American industries, that Mr. Hug had purged himself of at least the outward signs of being involved in interlocking directorates because he is no longer listed as a director of General Baking Co. We would point out also that competition—and I think this is one of the problems that should concern the committee—has broken down in large segments of the baking industry.

Continental Bakery is operating under a consent decree at the present time, prohibiting them from obtaining any more bakeries in their massive chain.

There have been a number of consent decrees against the baking companies, but a slapping of the wrist is hardly adequate protection for the consuming public. This record is largely a wrist-slapping deal.

What has happened is that the competition for bakery products is largely in the hands of the food chains, not the bakery chains.

We noticed last year, at the same time that the products of Ward and General Baking Co. were selling at 22 cents a pound, and that Kroger was selling the same loaf of bread of the same size, the same quality, also baked in union bakeries, for 17 cents a pound. Why the difference? That is something for this subcommittee or the Federal Trade Commission to investigate.

Having worked for a bakery company at one time, I would think that one of the problems that we have here is that many of their methods of distribution belong to the horse-and-buggy days.

The chainstores bake, put their products into a great van and move them directly to the stores. There is only one transportation bill involved. It is not very substantial, considering the quantity that it moves.

On the other hand, take Ward or Bond or a number of bakeries who have routes—and I ran a route, and this is why I know—go out and deliver this bread loaf by loaf, house by house, in the farming areas. You cannot tell me that this is as cheap as distributing this truckload all at one time into a big food chain. At the same time they are doing this, they are also charging the consumer in the city exactly the same price for that loaf of bread as they charge the rural resident 15 miles from town where they have taken it out and delivered it at his doorstep. This merging of costs of this expensive type of distribution with the inexpensive type of distribution is one of the ways that they up the cost of bread.

I am not against the farmer getting some service in the country and having his bread delivered to his doorstep, but I also know that the average farmer today goes to the city often enough that he does not have to have stale bread if he buys it in the city.

These are some of the problems that involve the industry in the price of bread.

I do not think that we have to be involved in a witch hunt to find these answers and we are not at all interested in a witch hunt. We are interested in (1) everybody down the line making a reasonable profit, because we believe in the profit motive, and that includes the farmer as well; we are also (2) concerned that the basic competitive situation in this industry be maintained. This is in the national interest and in the consumers' interest.

This was decided by legislation which the Grange helped to get passed back some 75 years ago. We have been in this field of anti-monopoly a long, long time, and we are still in it, but what I am saying, in closing, Mr. Chairman, is that this is a problem and the consuming public needs to know what the problem is, and it is not the farmers who have received a windfall—we are still below parity. It does not mean that anybody down the line has received a windfall. It is simply a reflection of the fact that in an expanding economy food prices must also go up as does labor and everything else. And if we understand that and the public understands that, we will bring this thing into its proper perspective.

Mr. Purcell. Are there any questions?

Mr. Findley?

Mr. Findley. Mr. Graham, you made reference to my statement, and just to clarify your position. Are you prepared to support the bill that I introduced, H.R. 16635, to repeal the bread tax?

Mr. Graham. Yes, I am prepared to state our position.

Mr. Findley. What is your position on it?

Mr. Graham. Our position has been stated to this committee many times. We believe that the American consumer can afford to pay.

We supported the 50-cent increase in the certificate bill. We oppose putting it on the taxpayers generally, simply because the people have a choice of whether they eat bread or do not eat bread. So, they can do something about the cost of bread. But they do not have any choice whether they pay the tax or not, and most of the people in America, in our economy can certainly afford to pay for their bread. With two cars in every garage, a boat in the backyard, country club economy, as we have today, to be subsidizing the American consumer, the average American consumer, seems to us to be ridiculous.

Mr. Findley. Is it your feeling then that the price of bread should not be a matter of concern?

Mr. Graham. I think that it should be a political concern. I think every politician is concerned about what the public is going to say about it, but I do not think that it should be of any more concern than the price of anything else. Why pick on bread?

It is of no more concern to me than the price of airline tickets. We ought to get a reduction in airline fares. I fly 75,000 miles a year.

This would be important to me. It would mean more to me than the price of bread. This is getting it into its perspective.

Mr. FINDLEY. You have indicated that you feel that the milling industry is not sufficiently competitive.

Mr. GRAHAM. I did not say the millers; I said the bakery industry. The milling industry is extracompetitive.

Mr. FINDLEY. And that the baking industry is not sufficiently competitive, and you cited the high cost of bread delivered on country routes compared to the cost of bread in the cities, and yet at the same time you point out that the farmers are driving automobiles so that they can get to town. So, I am wondering just where it is that they cannot take advantage of the lower priced bread in Kroger's and A. & P., and the other low-priced outlets.

Mr. GRAHAM. I think a lot of them do.

Mr. FINDLEY. Is it a problem?

Mr. GRAHAM. Yes, it is a problem, because the price which faces 7 percent of the people, on account of the farmers, is transferred to 93 percent of the people who are not farmers.

Mr. FINDLEY. And yet everyone, including the farmer, has access to the low-priced bread; there is no denying that.

Mr. GRAHAM. I go to a Kroger store, and within the last year, there was a woman buying 40 loaves at one time, and when asked, she said, "We eat a lot of toast." That was a lot of loaves of bread.

Mr. FINDLEY. Can you cite any other illustrations of a lack of competition in the bakery business?

Mr. GRAHAM. I think the illustration I have given you of the convictions and the consent decrees under the antitrust laws are obvious. This is prima facie evidence of the lack of competition.

Mr. FINDLEY. Did the study of the National Commission on Food Marketing just recently completed show excessive profits on the part of the bakeries?

Mr. GRAHAM. There is no question of that.

Mr. FINDLEY. Did it show excessive profits?

Mr. GRAHAM. We have not seen the final study. Maybe you have, but we have not seen it.

Mr. FINDLEY. Do you think that the profits of the bakeries are out of line?

Mr. GRAHAM. No. This is what I said in the testimony. When you look at their financial statements they indicate that they are not making a great deal of money even with this tremendous combination of American and Ward and so forth. It does not show that. With sales of $580 million and $6 million of earnings, this is not excessive profits. The fact of the matter is that one has been in extremely financial difficulty.

Mr. FINDLEY. That does not square with your contention that there is a lack of competition.

Mr. GRAHAM. The two are not necessarily self-exclusive. I do not know what impelled them to have this arrangement of prices, but the low profits that they had was one of the things that was behind the fact that they were trying to stabilize their profits by some pricing arrangement.

Mr. FINDLEY. Is it your feeling that this bread tax that I have referred to is an item of small consequence in the pricing of bread?

Mr. Graham. It is small in comparison with the other items, because, look at how much the cost of wheat is in bread. Suppose that we go up to 3½—suppose we go to 4: This still is a small percentage, any way you figure it.

Mr. Findley. If that is the case, then recognizing that the farmers are getting considerably lower than a fair income today, actually around 79 percent of parity, I understand, why do we not increase the value of the bread tax, double it, and that would bring it closer to 100 percent of parity, since it is not a matter of great consequence in the pricing of bread.

Mr. Graham. We don't have to have 100 percent parity on all of the wheat that is being sold. We think that part going into domestic consumption should bring in 100 percent parity, but when we get to the foreign market we have an entirely different situation. This is where, if we are going to subsidize foreign trade, we are subsidizing it out of tax money. We do not even believe we should subsidize that very far, because you get into trade negotiation troubles and everything that goes with it. So, we have two different markets. We have a world market at one level; but our domestic market where we buy is at an entirely different level than the world market level; therefore, we want what we sell into the domestic market to have some relationship to what we have to pay the domestic market. The other is marginal production, and under our present wheat bill we can produce or not produce it. No farmer is forced to produce this marginal production for world trade or for world hunger programs or anything of the sort. His pencil is sharp enough—if he feels he is getting a profit out of it, let him produce it for the world trade. There is nothing mandatory about it. We almost have to produce the wheat that goes for domestic consumption; we have no choice on that.

Mr. Findley. Do you feel that there are inflationary pressures at work in our economy?

Mr. Graham. I think there are some. I do not know how strong. I think we have an expanding economy that will mean rising prices. Now, whether rising prices in an expanding economy are of themselves inflationary, is something that I am not willing to admit now. When the price goes up faster than the gross national product, the production of an economy I think would be inflationary, but some parts are inflated—So I do not think that some are quite so inflationary. The most inflationary aspect that we have is the war in Vietnam. This takes precedence over anything else down the line.

Mr. Findley. And it is very real.

Mr. Graham. It is a real threat. I am not willing to admit that it is a greater threat than other things. You will find out something if you talk to our foreign friends. I was in London in May, and I had a chance to talk to the Scandinavians and the British and the Germans and all the rest of them in attendance at that meeting. I had an opportunity to vist with them informally, as well as in the convention hall. These people laugh at our ideas of inflation. One Scandinavian, a doctor of economics, said: "I wish that we had your kind of inflation. You have gone up 10 percent, and we have gone up 45 percent." And they are justifying in these countries, in West Germany and in the Common Market countries, these increased prices on the basis of the increased prosperity of the Common Market. When price does not reflect production, then it is inflationary; but where price reflects the increased efficiency in production, I am not willing to agree that the price increase per se is inflationary.

Mr. FINDLEY. You have been very thoughtful, Mr. Chairman. Perhaps, sometimes Mr. Graham might direct questions to me and anytime you are willing, I am willing.

(Mr. Graham indicated that he desired to do that.)

Mr. PURCELL. Each of you have done a very active job of stating your position.

Mr. GRAHAM. Whether the committee would benefit any further by that might be debatable.

Mr. PURCELL. Let me ask one or two questions:

In regard to the prices that the farmers are now getting or have been getting this last year, or year and a half, or 2 years for their domestically used wheat, was there a time when the farmer was not getting parity for even his domestically used wheat?

Mr. GRAHAM. We have not received parity for the domestically used wheat since 1952, when the certificate was passed.

Mr. PURCELL. Would it be then an accurate statement to say that the farmer is not receiving parity and is subsidizing the consumer to whatever degree he fails to receive parity for his product?

Mr. GRAHAM. Well, that is one way of saying it. To some extent he is subsidizing the consumer, and to some extent he is taking it out of his own hide and his children's hides, and his wife's hide, and it comes out of education and many other things. I think, while it is not a governmental subsidy, it is a subsidy anyway, although it does go through the Treasury.

Mr. PURCELL. Are you familiar in general terms with the purchasing ability the farmer has and the amount of money that he has been paying for manufactured products made by other segments of the economy?

Mr. GRAHAM. I am familiar in a pretty general way with that, and in some ways specifically.

Mr. PURCELL. I have a record here that the farmer spends about $30 billion a year for goods and services to produce his crop and livestocks, for groceries, appliances, and things of that kind. I think they spent about $12 billion a year for steel; that is, tractors and farm machinery. If I remember correctly, the farming industry is one of the biggest users of rubber. I do not know exactly what the figure is. At any rate, the farmer certainly is one of the biggest segments of the purchasing public in our economy. Is he not?

Mr. GRAHAM. Yes, I think he spends all the money he can get, and he goes into debt after he spends all of the money that he can get from his earnings. His purchasing is largely in the area of hard capital goods, not too much in terms of soft goods. When he gets an extra increase in farm income, he does not put it into new furniture for the house or a trip to Europe, he buys another tractor, and so that, actually, the effect on the economy of what the farmer gets is out of proportion with any other segment of the economy, because he purchases in terms of steel and steel products, rubber and rubber products, electricity and oil, and the like. These are major purchases of hard capital goods and it is not so much in terms of clothing and luxury goods.

Mr. Purcell. Do you know of any product other than wheat that the consumer has to use or does use that is subsidized?

Mr. Graham. No. When milk went up a dollar in subsidy——

Mr. Purcell. What did?

Mr. Graham. In milk we have gone up a dollar in subsidy in these last 6 months.

Mr. Purcell. My point being that, in the discussion we had earlier with our friend, Mr. Findley, the consuming public does pay the full price, the full parity for those things that it uses, other than for about two farm products, so far as I know, wheat and milk. Is that correct?

I do not believe that the consumer gets any subsidy on cotton fiber. I may be wrong on that.

Mr. Graham. Well, not particularly now. There is a little. I think it is kind of incidental in that. He is not getting a direct subsidy on these. But, on the other hand, he is not being paid the parity level on a good many of them, either.

Let us take vegetables, for instance. These boys have been in real trouble.

Meat, at the present time, is bought at parity.

On wheat, they are up to parity domestically, by act of law.

Corn is not up to parity, although the rest of them are bumping on the edge of parity.

Milk is a long way below parity, so far as that is concerned. Even class I milk at the best prices today is below parity.

Mr. Purcell. Thank you. Are there any other questions?

If not, we thank you again.

Mr. Graham. Thank you.

Mr. Purcell. The next witness we have is Mr. George Meeker, from the National Association of Wheat Growers.

We will be glad to hear from you now.

STATEMENT OF GEORGE MEEKER, VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Meeker. Thank you, Chairman Purcell and members of the committee.

My name is George W. Meeker. My home is at Garden City, Kans. I am vice president of the National Association of Wheat Growers which represents wheat producers in the 11 States of Colorado, Idaho, Kansas, Montana, Nebraska, Oklahoma, Oregon, South Dakota, Texas, Washington, and Wyoming; and I am president of the Kansas Association of Wheat Growers, which represents 40,000 Kansas wheat producers. I am a wheat farmer and a State representative in the Kansas Legislature. Our asociations appreciate this opportunity to present our views on the increased bread prices.

I am sure you know that wheat farmers have taken a price beating for many years. Any other segment of the economy would have taken drastic measures against such treatment. We are trying to survive through the legislative process.

In Kansas, the market price for wheat rose 18 cents a bushel from mid-June to mid-July. This is the greatest 30-day price increase since 1954. This rise brought wheat to a statewide average price of $1.78 per bushel.

While this is the greatest 30-day price increase in wheat since 1954, parity price for wheat for July 15, 1966, was $2.58 per bushel. I think we can consider the 30-day increase of 18 cents a "modest" increase, since the wheat farmer still would have 80 cents to go to achieve a fair price for his wheat in relation to the things he must buy.

The price for wheat over the United States at this time was only 67 percent of parity—and Kansas wheat was 4 cents higher than the national average.

This is not the way the market usually behaves. The normal price curve on wheat goes down during harvest in the Central United States when most farmers are forced to sell at least enough wheat to pay off production expenses. This year the curve went up.

There are several reasons for this unusual situation:

(1) The anticipated carryover of old wheat was smaller than normal.

(2) There was a drop in July of 75 million bushels from the 265-million-bushel wheat production forecast by the Federal Reporting Service.

(3) A drop in the wheat supply led to public speculation in the wheat market.

(4) Wheat producers had a tendency to hold their wheat for a better price—particularly with certificate payments easing the financial demand at this time of the year.

In other words, we have arrived at the point where we have a seller's market in wheat—a position which wheat producer organizations have worked toward for many years. We feel that one of the principal factors in arriving at this position has been the inclusion of important elements from the domestic parity plan for wheat in the present Government program. This is the plan which traditionally has been supported by the National Association of Wheat Growers.

We are concerned, therefore, when price increases for bread are put into effect and the wheat farmer is made the whipping boy in the eyes of the consumer.

We are concerned over a situation which could lead to the undoing of the benefits achieved by the Government program for wheat, and the considerable self-help programs of wheat promotion underwritten by wheat producers, themselves, through their State wheat commissions and wheatgrower associations.

We feel it is important that wheat farmer income reach a point in line with the income of other segments of our economy.

We feel it is important that wheat farmer income reach a point in line with the income of other segments of our economy. We believe that the programs which we have supported did improve wheat farmer income, cut down burdensome surpluses, maintain orderly marketing, protect the consumer market, and at the same time protect the Nation's producers of this food grain during a period of transition.

Any move to discredit or eliminate the basic features of the current wheat legislation would cut the heart out of the present wheat program. This is in spite of the fact that the wheat producer is receiving only 67 percent of parity for the wheat he is selling and selling on the highest market many of us have seen during the harvest season. We do not believe the farmer, miller, baker, consumer, or the Nation as a whole would benefit in the short or long term from further depressing farm prices.

I should like to refer to a statement made by Joseph M. Creed, general counsel for the American Bakers Association and Biscuit Manufacturers Association before the Committee on Agriculture and Forestry of the U.S. Senate on February 10 and 11, 1964. Mr. Creed's statement, which has been condensed without, I hope, doing any violence to statements in context, bears out our contention that higher bread prices are not due to wheat prices—but from a background of baker information. He said, in part:

> As has been frequently pointed out by the Department of Agriculture, the value of the wheat in a one-pound loaf of bread at current prices is approximately three cents. If the price of wheat were the only cost consideration in a loaf of bread, an increase per bushel of wheat of approximately 60 cents would be required to raise that value by another cent.
>
> The loan value of wheat for the current year is $1.82 a bushel. A program which would increase the farmer's guaranteed return to $1.95 or $2 per bushel obviously falls short of the 60 cents per bushel which is estimated to be necessary to bring about a direct one-cent increase in the baker's cost of manufacture of a pound of bread. Wheat is just one component of the many costs which enter into its manufacture and sale, and ordinarily would never be the sole determinant as to whether the price would be increased or decreased. . . .
>
> It is unrealistic and a distortion of economic realities to blame either the wheat farmer or the baker by relating a price increase in bread to fluctuations in the price level of wheat. . . .
>
> It would be an injustice . . . to both the farmer and the baker to attempt to lay at the doorstep the cause for higher bread prices when so many cost factors other than the price of wheat enter into the determination of the price of a loaf of bread. . . .

I should like to call your attention to the Agricultural Research Service report (ARS–74–35, April 1966), Fourth National Conference on Wheat Utilization Research. On page 4 and following there is a report to the conference, "An Economic Interpretation of Wheat, Flour, and Bread Prices," by Kenneth E. Ogren, ERS, USDA, Washington, D.C. This report points out:

(1) By means of a graph, that the retail prices of bread have risen steadily since 1947, while wheat prices dropped precipitously to 1949, then meandered downward to 1960, when a rise began. Data for the first 9 months of 1965 on prices received by farmers for wheat, however, still had not risen to 100 percent of 1947–49—while data for retail prices of bread had soared to well over 160 percent of 1947–49.

Publicity and statements to the contrary, it seems to us that it is reasonable to conclude from an examination of the data, that the price of wheat has nothing whatever to do with the rise in the price of bread—not today, and not, at least since 1947—unless there is an inverse relation there.

(2) Both pictorially and in words, it is shown that from a 20.9-cent loaf of bread, the retailer receives 3.9 cents; baker-wholesaler, 11.4 cents; miller, 0.8 cents; transportation, handling, and other processing, 1.5 cents; and that the farm value of all ingredients is 3.3 cents, with the wheat farmer receiving 2.7 cents.

Not only that, but when the loaf was selling for 12.7 cents in the 1947–49 period, the farm value of all ingredients was 3.3 cents, with the wheat farmer receiving 2.7 cents—the same as in 1965, when the loaf sold for 20.9 cents.

It should be pointed out that the nonfarm population—who, together with the farm population, make up the consumers we are talking about—have a stake in this price of bread. The rise of 6.2 cents in the price of bread apparently went into the nonfarm pocket—indicative of the way in which agricultural production supports the welfare of a large portion of our labor and industry.

Any action taken that will damage the welfare of the farm population, therefore, must be reflected in depressing conditions in nonfarm labor and industry.

Our purpose in appearing at this hearing is not to try to obtain any unusual benefits for special interests, but to repeat what we have said many times before in congressional hearings, and in our statement to the general public; We are in favor of a reasonable profit by all who have a hand in producing a loaf of bread—but we farmers need a profit too.

We do not believe that we can carry on forever as a successful nation with the disparity which exists between the income of our agricultural population and the rest of our economy. We feel that with a combination of Government programs and those of our wheat organizations, producers are beginning to move into a better situation in relation both to their wheat supply and their income.

We deplore irresponsible actions and publicity which would lay the blame for higher food prices at the producer's door, when it can be show statistically—for bread, at least—that this is not the case.

We believe that a strong agriculture is important to the strength and prosperity of this Nation, and we are very much concerned over the possibility that misleading information could bring about a cancellation of the growing strength, prestige, and economic well-being of this country through its damage to agriculture.

To that end we welcome an investigation into this controversy over bread prices. We hope that the facts, when they are obtained, will, once and for all, resolve the question so vividly that anyone will be ashamed to use such refuted material. Then we, as wheat producers, can go about our business of helping to keep this Nation the best fed in the world—of building our national economic strength—and of helping to provide the wherewithal to assist in a program, which must be borne nationally—not by agriculture alone—of lifting up the developing nations of the world.

Mr. Purcell. Thank you very much, Mr. Meeker.

Mr. Dole, do you have any questions?

Mr. Dole. First, I want to say that I agree with the sentiments Mr. Meeker has expressed in his statement.

Do you feel, George, that the increase in the acreage allotments will, in any way, affect the price that the farmer receives, down in Kansas for example, as contained in the most recent announcement put out by the Secretary?

Mr. Meeker. This is a debatable point at this time. I think that in the areas of continuous crop operation it depends that a good portion of the added wheat allotment will be seeded. This, again, is going to be determined, as to what it might do to the price as the result of having more acreage. I have talked to some farmers who have been thinking about the program, and they are a little concerned in some areas about maybe overproducing and lowering the price by doing this, by having this increase.

Mr. Dole. I think that this relates directly to the purpose of these hearings. I do not feel the increased acreage in itself will mean a reduction in the bread prices. I do not see that, do you?

Mr. Meeker. No. I see no relationship there. There is practically no relationship between the cost of wheat and a loaf of bread, so far as cost is concerned.

Mr. Dole. Nor do I see in it any guarantee that the farmer's income will increase. It depends on whether he can produce more acres profitably. If so, he will benefit.

The farmer has been blamed for the increase in bread prices, at least in part. I would assume that everyone can justify their position, but the fact is that the price has gone up. And as you developed, it has not been any bonanza for the farmer.

Mr. Meeker. That is correct. I think that the conserving acres will definitely allow more farmers to plant their allotment.

Mr. Dole. What we need more than anything else is a good rain in Kansas.

Mr. Meeker. That is right.

Mr. Dole. Thank you.

That is all, Mr. Chairman.

Mr. Purcell. Any questions, Mr. Foley?

Mr. Foley. No questions.

Mr. Purcell. Any questions, Mr. Belcher?

Mr. Belcher. No questions.

Mr. Purcell. Any questions, Mr. Redlin?

Mr. Redlin. No questions.

Mr. Purcell. Mr. Findley, any questions?

Mr. Findley. Thank you, Mr. Chairman.

I believe that you are the first farmer to testify in these hearings. Am I correct?

I think you are expressing their views.

The second witness today indicated that in his opinion the bakers are not highly competitive.

Would you like to comment on that?

Mr. Meeker. I really am not prepared to make any such statement on that. I am well aware that the millers are. I would have to agree with the gentleman ahead of me, that I am sure that the profit figures are not excessive in the milling or the baking industries. We are not arguing at all in regard to profits. We think everybody should have them.

Mr. Findley. You see no indication that the competitive system has broken down in the production and sale of bread?

Mr. Meeker. I am not prepared, really, to make a statement on that. I am not that well qualified or know that much about the baking business myself.

Mr. Findley. Do you consider yourself to be a small farmer or a large farmer?

Mr. MEEKER. I would say that I am a medium-sized farmer.

Mr. FINDLEY. Can you give us some idea of how much wheatland you plant?

Mr. MEEKER. My allotment is approximately 800 acres.

Mr. FINDLEY. How many?

Mr. MEEKER. Approximately 800 acres.

Mr. FINDLEY. The bill that I referred to in my testimony would change the wheat program, in that it provides that the entire cost be taken from the general revenues instead of just the processors of wheat for food uses. Do you favor such a change?

Mr. MEEKER. Well, no; I do not favor a change, because I have always felt, myself, that we were more interested in getting the Government out of the wheat business than we were in getting the Government further involved in it.

I believe I am like Mr. Graham, I believe that the consumer can well afford to pay for the bread he eats. We do not subsidize steel, I do not believe, and other things that we all use. I see no reason for changing it. The fact is that I would have been highly in favor of adding the 57 cents onto this processing fee, because, again, this passes the actual cost to where the consumer pays for the bread. I do not see that this is wrong. I think we have, by establishing this program, lowered the loan rate which put wheat down to a competitive level for the world markets, competitive with feed grains. And to me this is what most of the argument was about earlier, was to get the Government out of the business, rather than to put the Government into the business.

Mr. FINDLEY. I thought that the taxpayments were handled by the Government. I do not see where it is handled outside of the Government.

Mr. MEEKER. They are used a sort of a banking system. In that sense, however, it is not in the business; it goes through the trade. Actually, it is not a cost to the Federal Government.

Mr. FINDLEY. The payments to the farmers do not depend upon revenues from the processing tax. The payments would continue even if the revenues disappeared.

Mr. MEEKER. The payment by the millers——

Mr. FINDLEY. The subsidy programs that we have are not coupled directly to the processing tax.

Mr. MEEKER. The 57 cents——

Mr. FINDLEY. There is no direct relationship between the two.

Mr. MEEKER. The 57 cents was paid out of the Treasury this year directly as a direct Government cost.

Mr. FINDLEY. That is correct.

Mr. MEEKER. But the 75 cents the miller pays for the processing tax, I do not believe that is.

Mr. FINDLEY. That comes out of the Treasury, too.

The Treasury is reimbursed by the processing tax, but that processing tax is not tied in directly with the payment program.

Mr. MEEKER. Actually, what we are doing is that we are using the Federal Government as a sort of a banker, because they are reimbursed by the 75 cents paid by the miller. Right.

Mr. FINDLEY. I think that it would be misleading for the gentleman to try to let the general public know that we have departed from a Government subsidy in connection wtih the wheat program we now have. To me, the tax feature makes the farmer all the more dependent upon the Government than he was before.

Mr. MEEKER. I would have to disagree. Of course, I think that the reason this was brought about is that we lowered the cost to the Government of the subsidy when we reduced the loan price, and this helped take the Government directly out, too, because we do not have to pay that high subsidy for exports that we did before.

Mr. FINDLEY. We did not lower the cost to the Government. It is true that we imposed a new tax, a very seetci lxaetv
true that we imposed a new tax, a very selective tax for wheat for domestic use. To say that we reduced the cost to the Government is not correct.

Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Redlin?

Mr. REDLIN. No questions.

Mr. PURCELL. Mr. Hansen?

Mr. HANSEN. No questions.

Mr. PURCELL. Mrs. May?

Mrs. MAY. I thought that I might ask for the record, several points that have occured to me in connection with your statement.

The National Commission of Food Marketing Report made a very detailed study of baking and milling as you know, in the last year and a half. For the record, I thought that it might be interesting at this point to show the Commission's report which states that:

Wholesale bakers produce 77 per cent of the total value of all commercial bread and related products. Grocery-chain bakers produce 11 per cent. The remaining 12 per cent comes from small retail and home service bakers.

The wholesale bread baking industry consists of nine large multi-state corporations, three large cooperatives, and a large number of small independent bakers.

These nine companies have about 340 plants, of which 286 are predominantly bread plants. These plants produce about 40 per cent of all commercial bread.

The large cooperatives account for about 24 per cent of bread production. The cooperatives have 251 plants of which 248 are predominantly bread plants. Individual members of cooperative organizations act independently.

More than 3,000 small independent bakers and bakeries of the cooperative and voluntary independent supermarkets account for 13 per cent of the bread produced.

The conclusion is: Concentration in the wholesale baking industry has been increasing gradually. According to Census information, the four largest companies produced 20 per cent of the total value of bread and related products in 1954. Their share increased to 22 per cent by 1958 and 23 per cent in 1963.

There has been a slight increase in vertical integration by grocery chain bakeries.

I will not quote at great length for the record on this area, but it says that the vertical integration has taken place purely in the interest of cost management. The largest wholesale bakeries have the lower manufacturing cost.

And, finally, I thought that this would be of significance to our report today, Mr. Chairman, from the National Commission's study in the baking and milling area, and I am quoting now directly:

Bakers' costs have shifted significantly during the past decade. Data for a group of independent bakers show that selling and distribution have increased more rapidly than other costs—increasing by one-third during the last decade.

Manufacturing costs increased by 17 per cent. Hourly wage rates increased 40 per cent; however, increased labor productivity offset all but about 10 per cent of the rise in wages.

I am not prepared to state today that that same relationship between wages and productivity is the same, because I know that a number of new labor contracts in the baking field were signed; I think a number of them in May of this year.

Ingredient costs remained practically the same from 1936 to 1965.

This is a direct quote:

Moving the bread from the baker's platform to the consumer in a retail store costs almost as much as it does to grow the wheat, mill the flour, and bake the bread. A loaf of bread that costs 11 cents at the baker's dock sells for around 20 cents in the retail store. It is not unusual for five or six bakery trucks representing different wholesale bakeries to deliver to supermarket each day, and for the jobber salesmen to stock the shelves and remove the stales. This duplication of service contributes to high delivery costs.

And just a final quote from the report on competition of profits in this wholesale baking field. Profits of wholesale bakers as a percentage of stockholders' equity on sales. They have declined since 1950. And from the chart, I would just point out that their profits as a percentage of stockholders' equity declined from 15.9 in 1950 to 11.4 in 1964. Profits as a percentage of sales declined even more rapidly. Profits, according to the chart, were 4.8 in 1950, and in 1964 were 2.8.

Certainly, they are not making an overwhelming profit. I think that the profit margin today in the baking and milling industries shows we cannot identify any culprit in the marketplace as the one culprit responsible for forcing the costs up. And pending further investigation as to recent price rises in bread, I am not willing to state that the retailer is the culprit, either.

Thank you, Mr. Chairman.

Mr. MEEKER. Thank you. I appreciate that.

Mr. PURCELL. Any questions, Mr. Bandstra?

Mr. BANDSTRA. I have one question.

We do not grow much wheat in Iowa, but I am inclined to agree with your statement, and I think that it is a good statement.

The wheat certificate plan is not totally different than the wool subsidy program, is it, that we have had around here for a number of years? Are you familiar with that?

Mr. MEEKER. I am really not familiar with all of the features of the wool program. That is out of our line of business. We do not have our business in our area.

Mr. BANDSTRA. You do have some sheep?

Mr. MEEKER. Not too many in our area.

Mr. BANDSTRA. My understanding is that the wool subsidy payments are made out of a separate fund that is collected from the import duty and from taxes levied, and, again, they are not necessarily the same in each case. But, from that point of view, or to that extent, it would be similar to the wheat certificate plan. There is no relationship, necessarily, between what is paid out and what is paid in. I do not know of anybody, very frankly, who has opposed the wool subsidy program. In fact, in the hearings last year, there was not a single farm organization or a single person who came in to oppose the wool subsidy program. I think it is practically the same. It seems to be sound. It is still part of the Brannan plan. Many people seem to support the wool portion of the Brannan plan.

Thank you.

Mr. PURCELL. Mr. Callan, any questions?

Mr. CALLAN. You have a statement that states that the price of wheat over the United States was only 67 cents in variation. The Kansas City price was 4 cents higher than the national average. At this time, however, in July, the total parity price for the farmer who participated in the program was up to 90 percent of parity. That is right; is it not?

Mr. MEEKER. I am sure that is correct. I am sure that is about right.

Mr. CALLAN. In July of 1965, for example, 68 percent total, and it has gone up to 90 percent.

Mr. MEEKER. On the domestic consumed wheat.

Mr. CALLAN. On the total; in other words, the price in July was about $1.31 on the national average, and the average in July was $1.75, so that going up from 68- to 90-percent parity indicates that there should be some improvement in income out in your area; is that right?

Mr. MEEKER. Congressman Dole has the answer that should be right, that we did not have very much rain.

Mr. CALLAN. I know about that.

One other point that I would like to make relates to what Mr. Dole said. When this new increase in allotments which was announced yesterday, it would seem to me that now the farmer has some responsibility here, he can determine up to a point how much wheat he wants to produce in this country, because you can or cannot plant it, as you say. It would seem to me that maybe your association and the farmer organizations should take a look at the whole picture, because, for the first time in a long time, you can make a decision on how much wheat we should have in this country, and, therefore, would have some control over the prices. Would you agree to that?

Mr. MEEKER. I think how the farmers will feel, as the increased allotments will affect the price, will greatly determine how much extra wheat they will plant. Of course, it is very difficult for anybody now to guess the situation. In our particular area, with summer fallow practice we would probably not plant much more wheat if there was no program at all.

Mr. CALLAN. Do you agree that we are getting into a pretty good situation—much better than we have had in the past where we had surpluses hanging over us, where now we have a choice of what we want to do, more or less, depending upon our own judgment?

Mr. MEEKER. I think that is definitely true. The substitution privilege and this sort of thing allows the farmer more flexibility than he previously had.

Mr. CALLAN. Would you say that the wheat program is a successful program?

Mr. MEEKER. It has been, basically, a successful program. As I mentioned in the statement, we hope that we can continue to get along with the legislative processes, rather than get to the point where we have the power that labor has at this time. We hope that we can continue to exist and to improve our income in a reasonable time.

Mr. Callan. Thank you.

That is all, Mr. Chairman.

Mr. Purcell. Mr. Dole?

Mr. Dole. I just want to say, in regard to your general comments, that everything is going up under this administration except the airplanes. I do not know what the answer is. Certainly, we cannot lay that at the doorstep of the farmer; nor on the doorstep of the miller. The farmer may have an opportunity to profit if he raises additional wheat on these additional acreages if the price is right.

Mr. Purcell. Mr. Redlin?

Mr. Redlin. Do I gather from your testimony, Mr. Meeker—I am sure that I did—that you did support the idea of the certificate approach?

Mr. Meeker. Yes.

Mr. Redlin. And you did support it in 1965?

Mr. Meeker. That is correct. The national association supports this program, because, as I mentioned, the basic features of what we had always called the domestic certificate program was contained therein.

Mr. Redlin. Do you see, in this process of using the wheat certificate and the processor's charge or fee, greater assurance for the farmer that he will improve his income and get 100 percent of parity or nearer thereto?

Mr. Meeker. I definitely think that the processor fee is an improvement which will give the farmer a better assurance of income.

Mr. Redlin. You mentioned that in western Kansas you had a rather severe drought. Is it not true that some of your farmers did receive wheat certificates on more bushels than they actually were able to produce because of the severe drought?

Mr. Meeker. This would be definitely true.

Mr. Redlin. Because of their average production figure on which it is based?

Mr. Meeker. Very true; very true.

Mr. Redlin. Do you feel that this has been of some benefit to your farmers?

Mr. Meeker. It has been a definite benefit and financial aid to many farmers.

Mr. Redlin. That is another one of the features of the program that you think has helped the wheat producer?

Mr. Meeker. I agree, yes, sir.

Mr. Purcell. Mr. Bandstra?

Mr. Bandstra. You mentioned the substitution clause, Mr. Meeker, that is presently in the law. As a Kansas farmer, do you anticipate that the wheat farmers out in Kansas will be planting or taking advantage of this substitution clause and planting feed grains on this increased wheat acreage allotment?

Mr. Meeker. I would say that this would be possible in some areas, if they felt, at wheat-seeding time, that possibly the market might not be such as to give the same amount of income.

Mr. Bandstra. Do you have a feed grain base on your farm?

Mr. Meeker. Yes.

Mr. Bandstra. How large is that?

Mr. MEEKER. I have forgotten exactly, probably around 300 acres. I use the substitution privilege, however. I use the substitution privilege. I plant all of my acreage to wheat, the amount that is allowed under the substitution privilege, because wheat is a sure crop in that area, more so than feed grains.

Mr. BANDSTRA. Thank you.

Unless wheat goes down between now and the time you plant your wheat, you will continue to use your feed grain base acreage in wheat production rather than in feed grains?

Mr. MEEKER. I think, basically, this is true in most of the summer fallow practice areas. In the areas of continuous cropping, again, I think that the farmer will have to make that decision and try to outguess the market and determine whether he can make more money planting it to wheat this fall and wait and plant feed grains next spring.

Mr. BANDSTRA. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Findley wants to be recognized again.

I recognize Mr. Findley at this time.

Mr. FINDLEY. My only reason for that is to agree with Mr. Bandstra that the wool program is, indeed, a Brannan type of program. I do make this observation: The financial aspects of the wool program are considerably different than the wheat program. It is true that it combines payments and revenue features. The income is from import fees, as I understand it, instead of a processing tax.

Mr. BANDSTRA. One deals in wheat and the other deals in wool. That is the point that I was making.

Mr. FINDLEY. Yes.

Mr. PURCELL. While we are all getting our views on the record, I would say that I agree with you in saying that at the time this went into effect the price to the miller was about $2, the certificate was going to be 75 cents, and we went down to $1.25, still making the cost to the miller about $2, and to get that 75 cents, the Government collected from the miller and paid out about 45 percent of what each loaf contained that the farmer produced. I do not see how it cost the Government money.

And I would further observe that in the wool program where the money is derived from the import fees, the consumer still pays for the imported wool, including the import fees. The consumer is paying for the wool, like the consumer is paying for the wheat in this instance.

Inasmuch as I have the gavel, I will recess the hearing with that.

Mrs. MAY. I would like unanimous consent to have a statement of mine placed in the record as of yesterday.

Mr. PURCELL. Without objection, that may be done.

We will now stand in recess until 10 o'clock tomorrow morning.

(Whereupon at 11:55 a.m., a recess was taken until 10 a.m. Wednesday, August 10, 1966.)

BREAD PRICES

WEDNESDAY, AUGUST 10, 1966

House of Representatives,
Subcommittee on Wheat of the
Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:20 a.m., in room 1301, Longworth House Office Building, Hon. Harold D. Cooley (chairman of the full committee) presiding.

Present: Representatives Cooley (presiding), Purcell, Stubblefield, Foley, Redlin, Bandstra, Callan, Belcher, Findley, Dole, and Hansen of Idaho.

Also present: Representatives Hagen of California, and Mrs. May; Bettey Prezioso, staff; and Francis H. LeMay, consultant.

Mr. Cooley (presiding). The subcommittee will please come to order. Let us go off the record for a moment.

(Discussion was had outside the record.)

Mr. Cooley. The first witness is our colleague Mr. Paul Fino. We will be very glad to hear from you now, Mr. Fino.

STATEMENT OF HON. PAUL A. FINO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Fino. Mr. Chairman and members of this distinguished subcommittee, at the outset, allow me to express my appreciation for this opportunity to testify here this morning.

I realize that it is somewhat unusual for a Congressman from the Bronx, New York City, to appear before the Committee on Agriculture, but I am deeply concerned and equally disturbed about rising consumer prices and its resultant hardship on my constituents.

We all know that prices on bread and other food products have gone up and up, and the time for action is now. I extend to this committee my congratulations for initiating these hearings and enlisting the testimony of experts.

I am happy that the Secretary of Agriculture has ordered the Federal Trade Commission to investigate this serious problem but, I might add quickly, this investigation was long overdue and it is most unfortunate that Secretary Freeman waited so long.

It is difficult for me, and certainly the housewives in my district, to understand why affirmative action was not taken sooner, in view of the fact that the Department of Agriculture had some evidence since last February which showed an extreme degree of price-fixing and noncompetitive trading in the Chicago wheat market. This I might point out, was evidence the Commodity Exchange Authority had gathered in its investigation which started last February.

Gentlemen, I am no expert on commodity futures nor am I an economist but it would seem to me that if there was rampant speculation and price fixing in wheat, then this was sure to raise the price of wheat and certainly the price of bread.

After putting together the results of its February investigation, the Commodity Exchange Authority reported as recent as July 4, 1966, that it found "a complete lack of competition in floor broker handling of buying and selling of job-lot transactions on grain futures delivery contracts." As a consequence, the Commodity Exchange Authority said: "job-lot customers did not get the best prices from the floor brokers who represented them." Now, this can mean only one thing to me, that because of price fixing, wheat users had to pay unnecessarily higher prices for grain. This, no doubt, has had an effect on higher bread prices.

We must ask ourselves these questions: Why did this Government permit and allow price fixing to be so open and widespread? Why didn't the Government step in sooner and regulate this illegal activity?

We know that commodities regulations are the responsibility of the Commodity Exchange Authority. So why didn't this Federal agency step in and stop the price fixing and grain speculation? Why did this Federal agency fail to regulate and supervise commodities markets which have a turnover of over $75 billion a year?

Last year, the New York Times reported that the Commodity Exchange Authority had never—I repeat, had never—investigated the trading practices in a large number of commodities markets. And you don't have to be an expert in this field to know whatever happens in the commodity markets can have an effect on consumer prices.

I might also point out that last year, the General Accounting Office reported to Congress that this Federal agency, the CEA, had not, in a 5-year period, once checked the trading patterns on 21 regulated markets that had a combined volume of over $35 billion which accounted for 76 percent of the average annual value of all futures contracts.

It is obvious that the Commodity Exchange Authority cannot do the job on its small budget of $1.4 million. This amount is only about 10 percent of the budget of the Security Exchange Commission, which has done a pretty effective job of regulating the stock market. In my opinion, the Commodity Exchange Authority is equally—if not more—important. There is an urgent need to provide this Federal agency with sufficient funds in order to adequately and properly supervise and regulate commodities markets.

I feel very strongly that the Commodity Exchange Authority should have all the money it needs to regulate American commodity markets.

The actions of the administration in failing to provide funds for effective regulation of the crucial commodities markets are, in my opinion, tantamount to negligence and it is this kind of negligence that is costing our Nation's housewives more and more money for foodstuffs.

It is hard to understand how this administration can waste billions of dollars on foreign aid, poverty programs, rent supplements, and other equally wasteful programs but do little to protect the American housewife and consumer against high prices brought about through price fixing in the commodities market.

I urge this committee to call the Commodities Exchange Administrator to testify before this committee and explain its failure to adequately regulate trading practices in wheat. This Federal agency should explain why, as charged by the General Accounting Office 2 years ago, it was not doing a good job and why it had neglected to stop abusive trading practices.

I do not feel that the Commodity Exchange Authority needs new additional powers. It already has the authority to investigate trading practices. But, it does need additional funds and we should not hesitate to provide these funds.

Last May, I introduced a bill, H.R. 14854, which would require the CEA to investigate the trading practices of each registered commodity market thoroughly and regularly.

My bill would further require that the Authority investigate within 6 months any market that had not been investigated since 1964.

In my opinion, such a continuing investigation of commodity trading practices should enable the Authority to head off commodity price fixing without cease-and-desist or margin-setting power.

My bill would also provide for an additional half million dollars for these needed investigations. This, to my mind, would be a definite step in the right direction.

Another section of my bill would direct the Secretary of Agriculture to investigate our international commodity agreements and ascertain their effect on U.S. consumer prices. Unfortunately, the U.S. Government has signed a number of international agricultural commodity agreements as a result of which we pay outrageously high prices for commodities like sugar and coffee. These payments are a sort of disguised foreign aid, and I think we all know how some foreigners have spent time and energy to get their U.S. sugar quotas raised. Another of our international agreements is the International Wheat Agreement.

Let me say that I hope that this committee is studying this agreement. I do not know all of the complexities of the wheat agreement, but I know it is no good. The House leadership had an extension of our participation in this program on the calendar three times last year without actually letting it come up for a vote. Why? Because the International Wheat Agreement is bad for the United States. It is bad because we have to export wheat at an uneconomic price if wheat prices rise past a certain point. To give you an idea of the absurdity of the situation, we could be sending subsidized wheat to Russia while the price of wheat climbs at home. As I said, I don't know the ins and outs of this legislation, I am not an expert in this field, but I suggest that the way the administration has hedged on letting it come to a vote in the House speaks for itself.

At any rate, my bill would have the Secretary of Agriculture restudy all these commodity agreements and see if they are fair to the American consumer and taxpayer and not just to our foreign neighbors.

I think it is high time the agreements had such a thorough reexamination.

Let me say, in concluding, that the action of the administration in ignoring regulation of commodity trading practices has been a factor—and perhaps a very significant factor—in rising food prices. This administration has not helped the consumer, but at the same time, high prices have not helped the farmer. All the money is going to the middlemen, the traders and speculators, and the like. This has got to end.

I urge this committee to give very, very serious consideration to the impact of price fixing and lack of adequate Federal regulation of the wheat market. By working for a stronger Commodities Exchange Authority, this committee can undo the negligence of this administration, and help reduce bread and wheat prices, or at least prevent further increases.

Thank you.

Mr. COOLEY. Thank you very much, Mr. Fino, for your presentation. You were referring to H.R. 14854?

Mr. FINO. Yes, sir.

Mr. COOLEY. Your bill would amend the Commodity Exchange Act?

Mr. FINO. Yes, sir.

Mr. COOLEY. I am certain that this subcommittee will go into that matter thoroughly, and that we probably will have the representatives of the Commodity Exchange Authority before us to discuss with them the views that you have presented.

The facts which have been presented to the subcommittee so far in these hearings clearly indicate, I think, by clear, cogent and convincing evidence that the wheat farmer of the Nation has not been unduly enriched. The record shows that in 1947–49 the value of the wheat in a loaf of bread was 2.7 cents, and in 1966, in June, the value of that wheat in a loaf of bread was only 3.1 cents, or an advancement of 14.8 percent, and that was from 1947–49 to 1966. Certainly, that does not mean a great increase in the price of wheat. And the price of a loaf of bread during that length of time has gone up from 12.7 cents to 21.8 cents, or an increase of 71 percent. So, I do not see how anybody could, for one moment, suggest that the farmer has been unduly enriched. We have other figures that you ought to think about.

The millers' margin has gone up in that same period of time from 0.6 cent to 1 cent, a percentage increase of 66.7 percent.

The baker's margin has gone up from 5.7 cents to 11.6 cents, a percentage increase of 103.5 percent.

And the retailers' margin has gone up from 1.9 cents to 4 cents, an increase of 110.5 percent.

These figures perhaps no one will question, but from the standpoint of the laboring man, in terms of 1 hour's work purchasing power, the laboring man working in a factory buys more food today than he did 20 or 30 years ago with that 1 hour's pay.

On hour's pay in June 1966 would buy 12.4 loaves of bread; in 1965, 1 hour's of work would buy 12.5 loaves of bread, but in 1942, the hour's pay bought 9.8 loaves, and 1932, bought 6.3 loaves.

I am not complaining about the miller's margin, nor the bakers' nor the retailers' margin, but I think that the committee ought to know, and the Congress and the country should know just what has brought this about. I am quite positive that it has not been an increase in the price of wheat to the farmers.

Just in recent weeks, the Secretary, in an effort to assure ourselves an adequate supply of wheat, has increased the acreage for wheat in the next coming year. That will increase the supply and probably stabilize, bring down, the price, but what goes into the millers' margin or into the bakers' margin, or into the retailers' margin, I do not know; but I think that a lot of things go into this. I know that labor costs go into it, and the cost of transportation and the cost of insurance and taxes, and numerous other items which go into the determination of these margins.

I think it is the purpose of this subcommittee in these hearings, to determine who, if anybody, is responsible for these bread increases, and I think that the subcommittee is engaged in a very worthwhile undertaking. I am certain that every member of this subcommittee is interested in the consumers of the Nation, because, after all, all of our constituents are consumers. I am certain that Mr. Purcell and everybody else on this subcommittee will carefully go into all phases of the problem and try to find some solution. When we find the solution, the cause of this increase, I am also quite certain that we will never be able to sustain the contention that the farmers are being unduly enriched. I think that you probably will find on the other hand that they have actually been subsidizing the consumers in many instances.

It is true that we did have an abundance of wheat at one time, and we have shared that abundance with the hungry people of the world and the hungry nations of the world. Many hundreds of millions of people have shared in this abundance; they have participated in our supply of wheat and other food surplus.

We now have a program which contemplates even a greater increase in the production of wheat and other food commodities. We are trying to bring about an increase in the production of food in foreign countries and to help the countries that are willing to help feed themselves.

I want to thank you for presenting your views. I think they are very thought provoking views, and I am certain that they will receive the consideration of the subcommittee as well as the full committee.

Mr. Fino. I just want to clarify the atmosphere. I am not blaming the farmers. As a matter of fact, I am somewhat in sympathy with the farmers. What I am saying is that the administration has failed and neglected to investigate this problem in the markets, in the trading practices in the commodities markets. Only this morning the headlines in the New York Times state: "Commodity Wheat Futures Advance the Price—15-Percent Increase Rise in Acreage Allotments."

All of this price fixing and manipulation and the like in the commodities markets. This is where the Commodity Exchange Authority should go in and stick its nose in there and look and find out what is going on.

Mr. Cooley. You mean, in view of the increase in the acreage of wheat that the wheat prices have gone up?

Mr. Fino. Yes—wheat futures prices. They have gone up. As I said, we have this Commodity Exchange Authority. If they need more money to do a more proper job of investigation, let us give them the money.

Mr. COOLEY. I am for financing the agency adequately. I do not know of any law, however, that gives any agency the right to fix the price.

Mr. FINO. Not to fix the price, but to investigate the price fixing.

Mr. COOLEY. We can investigate everything.

I do not know of any agency through which the Federal Government can go in and fix the price at any level.

Mr. Findley?

Mr. FINDLEY. The subcommittee, I feel, appreciates your presenting this statement and listing questions that need answering. I am sure that you are aware that the operations of the central markets like the board of trade, in effect, set the prices that the farmers get for their products. So, to the extent that there is price fixing at high levels, I would assume that the farmers would tend to benefit from the price fixing.

In view of the serious charges that you have made in connection with the Commodity Exchange Authority, I believe the subcommittee should call the Administrator of the Commodity Exchange Authority to clarify just what recommendations were made by the Authority earlier this year, and why implementation did not occur, if such was the case; and, therefore, hopefully clarify whether or not the competitive situation in the wheat market in Chicago and elsewhere has broken down.

So, I appreciate your statement, Mr. Fino, and I do urge the chairman of the subcommittee to call the Administrator of the Commodity Exchange Authority before this subcommittee.

It could, indeed, have a bearing upon the basic question of bread prices; and, certainly, these serious charges should be dealt with as promptly as possible, in fairness to all parties.

Mr. FINO. Thank you.

Mr. COOLEY. I agree with you, Mr. Findley, that that should be done. I am certain that Mr. Purcell will consider your suggestion, to have the representatives of the Commodity Exchange Authority to appear here as witnesses.

Mr. Dole?

Mr. DOLE. You have presented a very fine statement, Mr. Fino. There were extensive hearings before the Domestic Marketing and Consumer Relations Subcommittee earlier this year, chaired by Mr. Matsunaga. At that time, we did have the Commodity Exchange Authority here and a great many other witnesses.

Because of the increase in the acreage allotment, there is an indication we do not any longer have surpluses. We now talk about scarcity instead of surpluses. All of a sudden we ask the farmer if he is going to raise a little more wheat. Will Mr. Farmer raise more wheat? In order to get him to do this, in 1967, to plant this year, the price must be made attractive to him, because he cannot raise wheat at $1.25 per bushel, the support price.

Because of the Food for Freedom Act, which most of us endorsed heartily, because of our world commitments approaching 1 billion bushels in the area of wheat, for example, the farmer may next year make a more reasonable profit.

I think that you made a very fine statement, Mr. Fino.

Mr. Fino. Thank you.

Mr. Cooley. Mr. Callan?

Mr. Callan. Why do you charge price fixing in the commodities markets?

Mr. Fino. For several reasons. I have read a number of reports. First, the General Accounting Office has said that for want of money, the Commodity Exchange Authority has not been able to catch a sizable number of questionable practices in trading on the different markets. The GAO has said that many markets are going unregulated. When the Commodity Exchange Authority does finally look into the commodity markets, then they discover that there has been price fixing. Now there are many regulated commodity markets that have not been investigated in years. There is probably price fixing in these markets. And these are the things that disturb me.

Mr. Callan. You have no specific evidence, though?

Mr. Fino. Yes; there is very recent specific evidence. The Commodity Exchange Authority itself started looking into wheat trading in February, and in July of this year, July 4, 1966, they issued a report on their investigation of the Chicago Board of Trade, in which they found a complete lack of competition in job lot transactions on grain futures delivery contracts.

Mr. Cooley. I do not know anything about any lack of competition, any charge of any lack of competition; I do not know of any agency in the Government that can generate competition, that can make people compete.

Mr. Fino. Sometimes, Mr. Chairman, if there is the eye of the Government looking down on transactions and activities they are a little more careful than in trying to speculate and in trying to do things that are illegal.

Mr. Cooley. That is the reason that we have the Commodity Exchange Authority.

Mr. Fino. But they themselves found that there was a lack of competition in contract transactions. They themselves found that there was this flagrant or illegal activity.

Mr. Cooley. As has been pointed out by some other members of the committee, if there have been illegal, unlawful acts which have been committed, and there has been price fixing which has been the problem, then certainly the Commodity Exchange Authority should have looked into that.

You mentioned the General Accounting Office. Did the General Accounting Office suggest any legislation or that anybody should do anything about the situation?

Mr. Fino. In the report of 1964, the General Accounting Office said that the agency had not once checked the trading. There is a whole list of things that they found, in their report. In the course of the investigation, the investigators of the General Accounting Office pieced together buy and sell orders on the exchange. They found that the Commodity Exchange Authority had not checked that out for 7 years. Over a single 3-month period, they found 47 instances where questionable trading practices appeared to exist.

The Commodity Exchange Authority followed up the evidence and, ultimately, slapped a suspension order on two brokers who admitted at having dealt at the expense of their customers, having run a series of wash or fictitious sales.

This was the whole story of this report that was made by the General Accounting Office in 1964.

Mr. COOLEY. That indicates that the Commodity Exchange Authority members have been derelict in their duties, in failing to be the watchdogs to see that things are all right, does it not?

Mr. FINO. I am trying to refresh my recollection, but I think that someone in that agency—it may have been the chairman or the Administrator—testified before the Senate Appropriations Committee—I think that was last year or 1964—and he was asked if for lack of funds they were prevented from following through and investigating and digging deep into these problems. This is a big problem of lack of funds. I would not want to say it was anything but lack of funds.

Mr. COOLEY. I would like to commend to you a staff study that we made which was filed in June of 1966, "Food Costs and Farm Prices." I think it is a very thorough study and contains a lot of valuable information.

You mentioned something about sugar and coffee prices, that they had gone up.

You might say that all of these adjustment programs result in some sort of price fixing, because they are designed for that purpose, to protect the sugar interests, to protect the domestic producers of sugar, and to protect the consumers of sugar in this country. For more than 25 years, we have had stability in the prices and in the supplies. Only in 1963 did we get into trouble, and that was when we were forced to give up the country-by-country quotas and go on the global quota basis. We were sure that the world had an adequate supply of sugar and that we would have a stable supply here, but that was not true. We have gone back now to the country-by-country quota basis, and the prices have been stabilized and supplies have been stabilized. And the same thing goes for any other adjustment program. You take tobacco, which is very vital to my part of the Nation, and peanuts, and cotton, and all of these adjustment programs which have been designed with one idea in mind—to protect the American people, and in trying to protect the American people, we have produced a great abundance. Our fields have flourished and we have harvested abundantly. We have made that abundance available to the people around the world who are hungry.

I, for one, would be delighted to see this subcommittee go into every phase of these problems.

We are going to have the National Millers Federation in here as witnesses, and the American Bakeries Co. will be represented as well as Ward Foods, and other people who are interested in the industry.

We had an act to amend the Commodity Exchange Authority Act, and hearings were held before the Domestic Marketing and Consumer Relations Subcommittee. That report was filed in April of 1966. If there have been any new developments within the marketplace and the like, I am not aware of it. I certainly can assure you that this subcommittee will go into this thing in great depth and try to bring all of the information possible to bear on the problem before us.

Mr. Fino. I understand, Mr. Chairman, that this report on the wheat investigation was released after the Commodity Exchange Authority had testified before this committee.

Mr. Cooley. What did you say?

Mr. Fino. I said that I understand that this report of the price-fixing, and so forth, of the investigation, was made after the Commodity Exchange Authority had testified at those hearings.

Mr. Cooley. Well, this subcommittee is certainly authorized to consider the investigation. And I would suggest to the chairman of the Subcommittee on Domestic Marketing and Consumer Relations to look into that.

If there are no further questions, we thank you very much for your appearance here.

Mr. Fino. Thank you.

Mr. Cooley. Let us go off the record.

(Discussion was had outside the record.)

Mr. Cooley. I will now turn the gavel over to Mr. Stubblefield.

Mr. Stubblefield (presiding). Our next witness is our colleague Lester L. Wolff. We will be glad to hear from you now.

STATEMENT OF HON. LESTER L. WOLFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Wolff. Mr. Chairman and members of the subcommittee, I wish to thank the committee for the opportunity of presenting my observations on the rising food-price index that presently threatens to subvert our efforts to avoid a severe inflation.

On Monday of this week, I met with Nassau County executive, Eugene Nickerson and launched a joint inquiry into the high retail price of milk and bread, the two staples that affect the pocketbook of every consumer in the country.

I feel particularly qualified to comment about food prices today because of both my recent inquiry in New York into the current economic situation and the practices of the dairy and baking industries, and because of my long experience, prior to my election to Congress, as a food marketing consultant.

The baking industry today is suffering from uneconomic conditions and destructive practices that have resulted in spiraling bread prices to the consumer. Conditions which are now contributing to the current rise in food prices have caused me to insist years ago that the Government investigate the economics of the industry. A basic fact about the baking industry is that bread and cake are, today, the only foodstuff sold to the retailer on a strictly consignment basis. The evil arising from this fact is that the cost of delivery of a loaf of bread from the commercial bakery to the consumer is almost as much as the combined cost of the wheat, the eggs, the baking process and the packaging.

In other words, the cost of delivering the loaf to the consumer is the largest single cost. Fifty percent of the retail price of the loaf is in the handling. The farm value of the wheat that goes into a loaf today is 12 percent of the loaf's retail price. The farm value, and I am quoting from the National Commission on Food Marketing Report, of the wheat that goes into a loaf today is the same as it was in the 1947–49 period. Yet, the price of a 1-pound loaf has almost doubled since 1947. I do believe consignment selling is one of the major evils affecting the industry today.

In practice, five or six different wholesale bakeries deliver daily to a grocer or supermarket. This means that each driver stocks the shelves and, since the retailer has taken on consignment, the driver must take back "stale" items. Who pays for this waste? The housewife.

If the bread were not sold on consignment, second-day bread, still fresh would not have to be trucked back to the bakery where, in many instances, it is sold to pig farmers at greatly reduced prices. In effect, the consumer would pay less for bread, instead of subsidizing the pig farmer.

But that is not the only wasteful, uneconomic practice resulting from consignment selling in the baking industry.

Again, I would like to quote from the National Commission on Food Marketing Report.

> The increased concentration of food retailing has placed the driver-salesman method of distribution designed to supply individual stores at a distinct disadvantage. The selling function has been shifting from the driver-salesman to direct negotiation between top level bakery management and top level grocery management. Nevertheless, driver-salesmen have tried to cling to the conventional selling commission on the wholesale price of all bakery products distributed in their territory in order to maintain their incomes. The need for a change has been recognized by top union leaders and bakery management. However, change has been slow and painful.

Who pays for this practice?

A common practice in the baking industry is for the distributing bakery to pay an "entry fee" of free merchandise for 3 or 4 weeks in order to get into a grocery or supermarket. In other words, this is an initiation fee. After the commercial bakery has bought its way into the store, it must continue to lay out money for promotion.

The bakery does not pay for this, it is the housewife who has to pay for it.

Another abuse is over- and under-the-counter discounts to the retailer. In addition to regular store markup, an additional markup of 5 to 10 percent to retail food stores and up to 20 percent in restaurants is paid by the baker. That is paid to the retail outlet. If these practices are eliminated there could be up to a 20-percent saving in price of bread and cake. Cutthroat competition in the bakery industry causes continuance of these practices. That, Mrs. Housewife must pay for.

Other promotional devices include free bakery stands in markets and promotional advances over and above the normal base price. These uneconomical conditions should be eliminated from the industry and this will result in lower prices to the consumer.

Mr. Chairman, in the bakery industry the farmer, the retailer, the baker and the consumer are caught in a squeeze in which no one really benefits. All suffer because of wasteful and sometimes corrupt practices. As a result of my inquiry in New York, I now recommend as an industry move that the practice of consignment sales be eliminated. I recommend that the industry take steps to regulate consignment selling. A precedent exists: consignment practices were eliminated under the OPA during the World War II. The end of consignment would be in the interest of economy and the elimination of waste in the baking industry. I further conclude that the Federal Trade Commission should investigate some of the more questionable practices of the bakery industry. The cost of these practices are, of course, passed on to the consumer.

Mr. Chairman, I have a long and sustained interest in the problem of rising food costs in our economy. I was gratified to hear that Secretary of Agriculture Freeman recently echoed my request for Government investigation of high food costs, including the cost of bread. Secretary Freeman corroborated the facts revealed by my own 17-month investigation of the trading stamp industry. These facts, also echoed in the recent report of the National Commission on Food Marketing, are that the largely unregulated trading stamp industry contributes vastly to our Nation's annual food bill and adds about three-fourths billion to the consumers' food bill.

Mr. Chairman, I call upon the Federal, State, and local administrative agencies to take immediate action so that we can protect the consumer against the spiraling cost of food.

This may seem an indictment of the baking industry. It is not meant to be. It is one industry, even with the great prosperity around us, that is in dire straits. I do not know of any baker that is making money today.

The methods of distribution employed are antiquated, costly, and should be changed.

If the industry is to survive and the consumer is to be able to "have his daily bread' at prices he can afford, the Government, industry, and the retailer must cooperate to rid the marketplace of practices that contribute to the situation in which we find ourselves.

Mr. STUBBLEFIELD. Thank you Mr. Wolff.

Does this practice also exist in the dairy industry?

Mr. WOLFF. Yes, sir.

Mr. STUBBLEFEILD. Your statement does not cover that.

Mr. WOLFF. Because of the fact that I understood that this subcommittee was primarily interested in bread. However, there are practices that are engaged in, in the dairy industry, in the case of milk sales to the retailers, there are situations that are collusive, sometimes very corrupt practices that are adding to the cost of the milk, as well in the case of milk marketing, with the segregation that we have of the blend of prices that are recommended, whereby fluid milk sales are limited to a certain portion of the total milk sold and sold at higher prices. I think that today, with the shortages that exist, that this situation should be examined as well.

Mr. STUBBLEFIELD. Are there any questions?

Mr. FINDLEY. I am glad that you came here, and certainly you have encouraged dicussion.

I assume that, from the tone of your statement, you are not suggesting or recommending that the bakers are making unusually high profits. Am I correct in that

Mr. WOLFF. No, to the contrary.

Mr. FINDLEY. To the contrary?

Mr. Wolff. That is correct.

Mr. Findley. In fact, they are highly competitive in a low margin industry at the present time; would you agree with that, so far as you know?

Mr. Wolff. That is correct.

Mr. Findley. You are suggesting that the bakers are forced into promotional practices which are wasteful or, perhaps, even useless; am I correct?

Mr. Wolff. That is correct.

Mr. Findley. Are you suggesting that the number of bakeries which service those stores should be limited?

Mr. Wolff. No.

Mr. Findley. That is, by regulation?

Mr. Wolff. No. I am suggesting that on an economic basis that is is uneconomical for five or six driver-salesmen to visit the same store to sell $5 worth of merchandise to that store and at a delivery cost of perhaps that would amount to almost 60 percent of the cost. Actually, in taking back the merchandise——

Mr. Findley. If that is the problem, I would conclude that you are suggesting fewer bakeries to service a single store?

Mr. Wolff. Not fewer bakeries. I am not suggesting that you limit the number of bakeries. I am suggesting that the industry could well serve the best interests of the consumers by adopting a process that has been in existence out in Detroit, for example, whereby there is the wholesaling of bread in which the distributor takes on the function of bringing the bread to the store in the same fashion that wholesaling exists in the other areas of the food marketing structure. I am saying we should cut down on the number of trucks making deliveries. This is an uneconomic process as it exists today.

Mr. Findley. Do labor contracts enter into the practices which exist in route deliveries?

Mr. Wolff. Yes, sir.

Mr. Findley. Are they a problem?

Mr. Wolff. Well, I cannot speak for the bakeries, but if you will just look at the Food Marketing Commission's Report, you will find that this very definitely enters into the situation. Today there are many retailer cooperatives that exist throughout the country—retailer affiliated stores. Actually the driver is no longer performing the service of a salesman, the driver is merely carrying on a drayage operation, and even though he is just draying the merchandise to the store, he is being paid a sales commission.

Mr. Findley. It seems to me that it would be helpful for our subcommittee to inquire into the labor contract details as they apply to the distribution system and the sale of bakery products.

Mr. Wolff. Yes, I think it would.

Mr. Findley. Would you think that this would be helpful?

Mr. Wolff. I think that this would be very helpful.

Thank you.

That is all, Mr. Chairman.

Mr. Stubblefield. Mr. Belcher.

Mr. Belcher. Mr. Wolff, if this practice is unprofitable for the bakeries, and there is another system of distribution that is better, why do not the bakers adopt that system?

Mr. WOLFF. Well, for the most part, as I understand it, many of the bakeries are under a consent decree, and they are very reluctant to get together in the same room because of that fact.

Mr. BELCHER. If they were to get together they, of course, would probably be violating the antitrust laws?

Mr. WOLFF. That is correct.

Mr. BELCHER. Then, if a bakery finds that this kind of an operation is not profitable and that he can establish one that is more profitable by not having this method of distribution—and we can presume that they are good businessmen in these industries—why does he not proceed to do that?

Mr. WOLFF. Again, I cannot speak for the bakeries.

Mr. BELCHER. What did you say?

Mr. WOLFF. I cannot, again, speak for the bakeries, but it would seem to me that it would be true, that they would examine new methods of distribution. But, as I have indicated before, the tight competition that exists within the industry today is such that just merely the ability to stay in business alone is such that they have had to utilize methods that, perhaps, are not economical methods—that is, just in order to save their own business.

Mr. BELCHER. I have always thought that it is an economic fact, that the greater the competition, the lower the price.

Mr. WOLFF. That is true, there is no question about that.

Mr. BELCHER. And with less competition, there is an increase in the price.

Mr. WOLFF. There is another situation that is involved here, too. There is a vertical set-up that exists today in the retail field, where the retailer today has his own bakery. In his case, he is able to circumvent the requirements delivery for commissions that the commercial bakers must follow today; in this vertical set-up with private brands of bread the retailer exerts much greater control over the situation than he was able to do before.

Mr. BELCHER. In other words, he makes his own bread, and he does not have to have these delivery costs, and the distribution costs, and the salesmen commission costs, and so forth?

Mr. WOLFF. And the consignment. Actually, the vertical retailer is able to reduce the cost of the bread the second-day in his store. For the most part the retailer will force the commercial baker to take that bread out of the store the second day, and as the result of that there is a double delivery cost in and out of the store.

Mr. BELCHER. Then, do you think that if all of these chain stores bake their own bread, that we would have cheaper prices for bread?

Mr. WOLFF. Here, again, you have a situation whereby the bakers are actually, in many cases, on a contract basis with an individual baker or they may maintain their own bakery. The economics of marketing are such that the individual store, if it is not large enough, cannot maintain a bakery of its own; and, therefore, it is dependent upon the outside bakery to supply its needs.

And the major portion of the food stores throughout the United States are independent stores, as the result of which they cannot afford to bake their own bread.

Mr. BELCHER. Is that the reason that the chain stores, the big food chains, sell bread cheaper than it is sold for in the independent stores?

Mr. WOLFF. Yes, I would say so.

Mr. BELCHER. Then, as I understand it, this is not a problem necessarily for the Government to step in and regulate?

Mr. WOLFF. That is correct but only part of it.

Mr. BELCHER. So that they would have sense enough to make money in their own business.

Mr. WOLFF. In fact, to the contrary.

Mr. BELCHER. What did you say?

Mr. WOLFF. I said, to the contrary. I am opposed to the idea of the Government stepping into the picture to regulate the industry if industry will clean up its own house. I think that one of the basic reasons why I came down here today is because of the fact that I think that industry should clean its own house, that industry should take care of itself, but the important element is the fact that I think that unless they do it, the consumers are going to suffer.

Mr. BELCHER. In effect, the problem is to get the bakers together and to have somebody tell them how to run their business.

Mr. WOLFF. To permit them to get together.

Mr. BELCHER. What did you say?

Mr. WOLFF. To permit them to get together.

Mr. BELCHER. If they are so bound together, and so forth, as has been stated, why would not the bakers just adopt the practices here that you have suggested, and thereby, could he not undersell all of his competitors by doing this?

Mr. WOLFF. Well, hardly, because of the fact of the practice that is involved. The consignment sale, for example. The retailer wants a consignment sale, because he is not responsible for the merchandise. He does not have to worry about the stale merchandise.

Mr. BELCHER. He can buy this bread cheap enough and eliminate all of this waste and expense. He could buy the break cheap enough to be able to sell it cheaper and to assume the responsibility himself, and he would be in better shape by eliminating these consignment features.

Mr. WOLFF. I think so.

Mr. BELCHER. It seems simply to be that the bakers do not know how to run their own business, I would assume.

Mr. WOLFF. I would not say that. They are very capable people.

Mr. BELCHER. What is the solution then, if the Government cannot do it.

Mr. WOLFF. I think that you have to change the custom and practice of the industry. This is one area that you are touching upon right now, the question concerning the stales. I think that it is not the bakers who have to be convinced of this, but the retailers who have to be convinced of this.

Mr. BELCHER. I had thought that we had the smartest businessmen in the world in America and that they had devised systems throughout the years for distributing food as cheaply, with as small a waste and loss, as any system in the world. I cannot conceive why a group of big businessmen would continue a practice, a system that was reducing their profits to the point where they are almost disappearing, whereby they still have to sell their products to the retail trade much higher than they would have to do it if they eliminated some of these bad practices.

Mr. WOLFF. Mr. Findley brought up an important point on this, and that is the fact that the union contracts that the bakers have preclude them doing some of the things that we are talking about here right now.

Mr. BELCHER. I would not know about that problem either, and I doubt if anyone else would; but if there is something somewhere that forces small businessmen to engage in a practice that is causing them to lose their profits and to increase their cost of producing bread to the consumer, I think that if we are ever able to discover that, that this subcommittee will serve a great purpose.

If it is not a thing for the Government, the businessmen, the managers of the bakeries are so helpless that they cannot correct it, then I am just wondering where we are going to go to get it corrected.

Mr. WOLFF. Well, I think that the subcommittee's activities here in this investigation of the situation, as to what makes up the cost of bread, the educational element that is provided by this hearing, will give Mrs. Consumer an idea of what is happening and, perhaps, she can exert more pressure than either the Government or the industry can.

Mr. BELCHER. Here is the situation: We are trying here in this subcommittee hearing to find out who is to blame for bread costs. That is the function that we are trying to perform here. Everyone wants to point the finger of suspicion at the other person. I do not think that, so far as the evidence we have had here, it has been shown that anyone has the right to point the finger of suspicion at anyone else. I think that it is bad to point the finger of suspicion at anyone else.

Everyone knows that it costs more money for every commodity that you buy today. Just as the gentleman here said, who gave some consumer figures, that they are up 38.5 percent since 1947–49 and food prices are only up 34.5 percent. So, apparently the other consumer prices—and that takes in clothing, automobiles, gasoline, everything that the consumer buys—have done a poorer job of distribution than the bakers have, because they are up 4 percent more. You pay 4 percent more money for these other products. Really, from what little I know about economics, the price of money is cheaper, and, therefore, it takes more money to trade for what you want, and that is true clear up and down the line, from top to bottom, in the matter of every single thing that you buy, not only in food but in every single thing that you have to buy, such as a man to mow your lawn or a 10-ton tractor—it just takes more money. When money is worth less, it takes more than it does when money is worth more. And it looks to me like it goes pretty well up and down the line, and if we are really going to get the villain out of this thing, we will have to just make money worth more. And, therefore, without using as much. And when you solve that problem, you will not need to worry about the tractor price or the food price or anything else. I think that is the villain in this picture—right there.

While I think that we should continuously investigate things, I think that when we get all through with all of the hearings, you are not going to be able to show any single person, with very rare exceptions, getting a better share than he is entitled to. And if that is true, somebody is going to start competing with him and bring his price down, if we maintain the free enterprise system.

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Mr. Wolff. On that score, of course, I do not disagree with you on the question of spiraling prices. However, there must be certain other factors taken into consideration when you come to food distributing costs, and that is the rise of the supermarkets in the period that you speak of, where distribution costs have been lowered considerably. The fact is that there are a great many products that are being sold in the food stores today that are sold at lower prices because of the efficiencies that have been created within the marketing structure by the retail food stores. In fact, retail food stores are, perhaps, the most efficient retailers that exist today.

On the question of the comparison of costs, I believe that this was alluded to before, bread prices have not increased by 30 percent, bread prices have almost doubled since the 1947–49 period. That is not an increase of 30 percent, sir. This is just going against a trend and is going at a much more accelerated rate.

Mr. Belcher. Do you know of any particular food product that sells for less money today than it sold for in 1947?

Mr. Wolff. Yes, sir, I would say some of the perishable items in the area of produce, and such, which are today sold in the way of off-season merchandise selling for prices that are comparable today in the frozen foods. I would say that there are a great many products that are being sold today in supermarkets that are at a lower price, basically, on a pound-per-pound or end-product than they were back in those days, because their distribution is much greater.

Mr. Belcher. I agree that there is a lot more efficiency, I think, in the distribution of food than we had in 1947–49. I am not disagreeing with you at all, so far as the baker is concerned. I do not know how they run their businesses, but it looks like if they continue to hang on to practices that cause the public to pay more for their bread and for them to make less money, that they ought to get some supermarket operators to operate the business.

Mr. Wolff. They are doing that.

Mr. Belcher. Maybe that will correct the situation, but I do not see how we can do it in Congress.

Thank you.

That is all, Mr. Chairman.

Mr. Stubblefield. Mr. Redlin.

Mr. Redlin. We have heard testimony as to the variation in the low prices on bread around the country, being 28 cents in one part of the Nation, and one of the points mentioned was the city of Detroit where they were buying bread at a much cheaper rate. I notice that you brought up the city of Detroit, too. You mentioned that the wholesaling of bread was the pracice there, but that it was not the practice in other cities.

Do you believe this is, perhaps, why Detroit is doing a better job, apparently, in getting bread to the consumer at a cheaper rate?

Mr. Wolff. Perhaps. I would say that the wholesaling function would be a more efficient method of distribution than the present method of distribution. That, perhaps, is a part of it. But you also have to consider the fact that the retail price of bread is conditioned by a number of factors. You have a greater influx today of bread called specialty bread, a specialty loaf of bread, high-protein loaves, diet breads, and such, which, when you take the general mix of items, you will find that it accounts for a greater percentage of the total sales. Your average price then will be higher. I do not know what the situation is in Detroit relative to the so-called specialty loaves.

I also might say that one company which pioneered this type of thing—and they have been rather successful in this—this idea of the wholesaling function, I would say that perhaps this is one of the reasons for the lower price.

Mr. REDLIN. I understood you to say that the consignment price is something that ought to be eliminated, that is, the consignment practice.

Mr. WOLFF. It does not necessarily follow, no. I was talking about the individual baker selling his own products as compared to a combination of having one man sell at the wholesale level the products of all of the bakers in the area.

Mr. REDLIN. I noticed, too, in your testimony that you dealt with this in-and-out business relating to the cost of getting the loaf to the customer. I believe you used the phrase "stale bread" here.

Mr. WOLFF. Yes, sir.

Mr. REDLIN. Were you indicating that the public should have a chance to buy that, rather than it go back to the bakers?

Mr. WOLFF. Yes, in the chainstores they do that now. This bread is not stale bread. Bread has a shelf life of perhaps 4 days, depending upon the mix that is used. Maybe it has 2 days or 3 days shelf life. It certainly has a greater life than 1 day.

In the chainstores, bread is marked down each day until it is sold. There are really no stales.

The commercial baker does not have the opportunity of doing that, however. He must take that merchandise out of the store when it is 1-day old, and puts it to a variety of uses. He uses it for bread crumbs or for stuffing mix. Ultimately, as I say, he sometimes runs his own "stale bread stores"; in other words, where he will sell bread at a reduced price to recapture some part of his cost that goes into the bread.

Mr. REDLIN. You say that he must take it back. Why must he do that?

Mr. WOLFF. Because it is the custom of the industry.

Other bakers are taking it back, and the retailer says: "I do not want to have this bread in my store." He, therefore, must take this bread back. However, it does not necessarily follow that this bread always finds its way back to the baker. There are some practices of taking the bread out of one store and moving it to another.

Mr. REDLIN. You mentioned, among other practices, discounts to retailers.

Mr. WOLFF. Yes, sir.

Mr. REDLIN. You indicated that it could mean a considerable reduction to the consumer if this were to be eliminated.

Mr. WOLFF. Yes, sir.

Mr. REDLIN. Would you enlarge upon that?

Mr. WOLFF. Yes, sir. In some areas, it is customary, in order to gain a competitive advantage for the baker to give a discount in addition to the wholesale discount that he gives to the stores. In other words, if the store receives a 20-percent markup on its bread, the baker in order to gain more space on the shelf or to gain a better position on the shelf will give anywhere from 5 to 10 percent to the retailer in addition to the regular discount. In some cases, this is a discriminatory practice. Why? Because of the fact that he only gives it to a certain selected few retailers. These selected retailers are then able to make additional profit. This is not passed on to the consumer in any way. It stays at the retail level.

This, again, is a practice that was eliminated during the war. Why? Because there were shortages. Today, because of the fact that there is an overabundance, the competitive situation is such that it is actually "cutthroat." You have this practice being perpetuated and increasing in volume. There is no reason, if there is a normal discount or a rate of markup that is given to a store, why there should be anything over and above that. If these extra discounts could be eliminated, you could eliminate part of the cost that must be passed on to the consumer.

Mr. REDLIN. You are indicating, then, that you feel that the bakers deal with different customers on a different basis?

Mr. WOLFF. Some of them do, yes, sir.

Mr. REDLIN. Thank you. That is all.

Mr. STUBBLEFIELD. Mrs. May?

Mrs. MAY. Is that not to help the entry into the markets of other brands, they give these discounts trying to build up their brand name?

Mr. WOLFF. This almost amounts to an additional discount on a continuing basis.

Mrs. MAY. But they are seeking a competitive advantage—they are trying to get an entry of their brand into the market——

Mr. WOLFF. Correct.

Mrs. MAY (continuing). With these practices.

Mr. WOLFF. Correct.

Mrs. MAY. If they did not do this, would it not result in their brand being retarded in general distribution?

Mr. WOLFF. Yes, but this would not be true if they gave everyone the same advantage. In other words, if they give discounts to selected retailers it is in direct opposition to the purposes laid down by the Robinson-Patman Act of giving everyone proportionately equal terms. The largest stores get the larger discounts. As a result of which you have an unfair competitive advantage that is given to certain stores over other stores. If this were merely to gain entry into the store—in other words, if there were a week's supply of bread that was given to an individual store, this could, in some way, be considered to be a promotional allowance. If it was available on a proportionate term to all outlets—however, because of the fact that it is not, it circumvents the Robinson-Patman Act, No. 1; and, No. 2, this is something that is self-perpetuating and continues to go on and on. It merely resolves itself into a lower price than the retailer receives. If this were passed on the consumer, again, this would be another point, but the price on the end label, with a prepriced label on the package, the retailer does not sell it at a lower price. I do not know whether he could sell it or could not sell it at a lower price and pass his discount on to the consumer.

Mrs. MAY. There is a very narrow margin for the retailer, as you know.

Mr. WOLFF. Yes.

Mrs. MAY. The point is that he has only so much shelf space for many different brands. I am just wondering if it would not, possibly, make it impossible for the smaller baker to get into the retailer, to build up his brand name, and if it were eliminated he might be able to get into the store at a later time, but not necessarily at a discount. This may be just one of the ways he comes into a store with his brand—a new baker gets into the market this way, and nobody would have a chance to go into the baking business, if this were not true.

Mr. WOLFF. The same situation could obtain, overall; instead of giving the retailer 20 percent discount, they could give the 22-percent discount and accomplish the same purpose and make this available to all stores.

What I suggest to you is the fact that it is a discriminatory type of discount operation.

Mrs. MAY. I do think that it is discriminatory.

Mr. WOLFF. He wants to get the business.

If I may take another half moment.

As a marketing person, I would say that the idea of discounts is an unhealthy situation, and if it could be eliminated it would redound to the benefit of the baker, the consumer, and the retailer, but I think that these things just grew up, became the custom and the practice of the industry, and merely because of the fact that they are traditional does not mean that they have to be perpetuated, because it has been said that tradition is the enemy of progress.

Mrs. MAY. I have always wondered why they themselves, as Congressman Belcher has said, has not gone into other practices if they feel that this is a self-defeating practice.

Mr. WOLFF. You will find that the industry is growing smaller and smaller—the number of people in the industry is growing smaller and smaller, and the commercial bakers, actually many of them, as I have tried to indicate, are in dire straits.

Mrs. MAY. We found that to be true in the Commission hearings. I want to comment on some of your statements based on the Commission's report.

Did you not find in your own study that each bakery has a different labor contract, that they differ in the various areas? Is that not correct?

Mr. WOLFF. I would say that is true.

Mrs. MAY. And that it is very difficult for them to extricate themselves from what we now know is not an economical markup.

Mr. WOLFF. Some time ago the baking industry and the Teamsters got together and, in some part of it, set up something called the Economics of Distribution Foundation. I do not know whether this still exists or not. Their objective was to find lower cost methods of distribution. It was, to my mind, a step in the right direction. Unfortunately, very little did come out of it finally. There has developed a situation whereby, unfortunately, the baker is not in a competitive position to exist with the present delivery system.

Mrs. MAY. Thank you.

That is all, Mr. Chairman.

Mr. STUBBLEFIELD. Mr. Callan.

Mr. CALLAN. Getting back to the question of wheat, you indicated in your statement that the price of wheat from the 1947–49 period up to today has not been a contributing factor to the price of bread, did you not?

Mr. WOLFF. I think that it is somewhat of a factor but not as much of a factor as some people want to believe or to place the blame upon the wheat farmer. I find myself in a position of defending the farmer here. I am, basically, opposed to the question of subsidies, but I feel that, in this particular case, I do not think that the wheat farmer is to blame.

When the discussion of wheat was brought up, there was the question of the difference between hard and soft wheats. The fact is that there has never been any great surplus, as I understand it, in Hard Winter wheat, for certain types of bread.

Mr. CALLAN. The facts are that the price of wheat now and the price of wheat in 1947–49 are about the same. The price of bread has doubled. That is the fact.

Mr. WOLFF. That was brought out by the Commission on Food Marketing report.

Mr. CALLAN. We had an increased price of wheat between July of 1965 and July of 1966 and, admittedly, this did cause an increase in the price of flour which goes into the cost of bread. This would have some effect on the recent price of bread. What factor do you think this was, if, in fact, it is true that the price of flour went up, amounting to about one-half a cent, in the price of a loaf of bread, using the normal markup in the wholesale bakery business to the retailer? What should that bread price go up, based on the increased wheat price?

Mr. WOLFF. I could not tell you what it should be, because of the fact that actually these prices are a geometrical progression. Everytime there is an increase in one part there is a profit and there is the additional costs that are added on, the commissions that are added on, the retailer's markup that is added on, so that it does become a geometrical progression, and you could not say that because we went up a quarter of a cent on a loaf of bread that you should only increase the price of bread a quarter of a cent.

Mr. CALLAN. If you put a half-cent increase on the price of the cost to the baker of the loaf of bread, the chances are that it will have to go up one cent.

Mr. WOLFF. Yes.

Mr. CALLAN. You cannot put on half-a-cent increase.

Mr. WOLFF. That is right.

Mr. CALLAN. So that it would go up one penny.

Mr. WOLFF. Yes.

Mr. CALLAN. And when the retailer gets it, he is not going to break a penny either. He takes it up another penny, and each time you mark that up you are doubling the markup; that is what you are doing, are you not?

Mr. WOLFF. You not only find that, but we experienced a situation some years back when I was the director of a retailers association, whereby the retailer thought he was not sharing in the increase. The bread price went up a cent. The baker's price went up 1 cent. The bread was price marked just a 1-cent increase, and the retailer thought that he was not being compensated for his efforts, and he was not. He refused the bread, based upon the fact that he could not take his percentage of profit, or his operating cost. You have a situation that is impossible to put a finger upon in the way of a relationship to an increase in the cost, that is, in the cost of the wheat and the final cost of the bread on the shelf of the store.

Mr. CALLAN. Would you say that the price of wheat in the form of flour in a loaf of bread——

Mr. WOLFF. Very minimal.

Mr. CALLAN. Very minimal?

Mr. WOLFF. Yes.

Mr. CALLAN. Thank you.

That is all, Mr. Chairman.

Mr. STUBBLEFIELD. Any questions, Mr. Bandstra?

Mr. BANDSTRA. I am very sorry that I was not here during the presentation of your statement. It seems to me that you are getting down to the nub of the matter. I want to commend you on that.

I understand from your colloquy with Mr. Callan that what we are really saying and what you are saying in your statement, is that the wheat farmer has remained efficient over the years, but that the distribution end of the business has not gotten effiicent or remained efficient during the same period of time; is that correct?

Mr. WOLFF. I would not brand or label the baker or the distribution system with inefficiency, but I would say that it is uneconomical.

Mr. BANDSTRA. And I think that you used the word "corrupt" at one time.

Mr. WOLFF. There were some practices that I alluded to that I felt were, both in the milk industry and in the bread industry.

Mr. BANDSTRA. I am not clear as to why they cannot, in their own industry, eliminate this uneconomical system that they have at the present time. The farmer obviously, has been able to do this, and we always have many kind things to say about the businessmen in our economy. Why cannot they solve the simple problem like this?

Mr. WOLFF. I understand from the calendar here, you will have a number of bakers who will follow me, who can, perhaps, answer that better than I can.

Mr. BANDSTRA. I would rather hear from you than from them.

Mr. WOLFF. I really do not know, other than the fact that in some cases it is a move of desperation that they refuse to knock out those practices that are really causing their difficulty.

Mr. BANDSTRA. Last year at our hearings, I listened to the millers and the bakers who were very sympathetic as to what would happen to the poor people of this country if we increased the cost of the wheat certificates, and they were really very zealous in stating that the people in the poverty group, according to the testimony, ate products which normally had a larger percentage of products containing wheat than the rest of the people in the country who were not in the poverty bracket. It seems rather strange to me that they are not willing to show that same sympathy and understanding to these poor people when all they have to do is to eliminate this efficiency in their system. Do you have an explanation or reason for that?

Mr. WOLFF. Well, this is the point that I make in my basic presentation, perhaps if we could have eliminated or if we do eliminate some of the uneconomic practices and cut back upon some of the practices that are extraneous, really, we might be able, instead of having to add to the price of bread, to either keep it at the same price or to cut the price a little.

Mr. BANDSTRA. I am sure that you, as well as myself, and all of the members of this subcommittee, and all of the Members of the Congress for that matter, are interested in keeping the price of bread down and all other food commodity prices down, at least within reasonable levels.

Do you recall what the price of bread was back early in those hard-money days, say, in 1929 to 1932—in that era?

Mr. WOLFF. I do not recall. I will give you an idea, that bread was about 10 cents a loaf in those days.

Mr. BANDSTRA. About 10 cents?

Mr. WOLFF. Somewhere around that, maybe 9 cents a loaf.

Mr. BANDSTRA. I think it was selling for about a nickel a loaf, maybe, in some parts of the Midwest, but I do not remember what wheat was selling for.

Mr. WOLFF. Of course—excuse me. If I may—if you will yield for a moment.

You consider the fact that bread in those days was sold in a paper bag and was not sliced, and there were many extras added to bread in the years following, so that today you have these extras, and they did not have those in those days back there.

Mr. BANDSTRA. But if bread was selling for 10 cents a loaf over the counter, back in those days, and it is selling for about 29 cents a loaf now——

Mr. WOLFF. Yes. Some of the bread is selling for about 25 cents up to 26 cents.

Mr. BANDSTRA. It would be really a better buy today with our present-day standard of living than it was back at that time at 10 cents a loaf?

Mr. WOLFF. What is that?

Mr. BANDSTRA. It would really be a better buy at 25 cents or 30 cents a loaf today than it was back in 1929 to 1932 at 10 cents a loaf?

Mr. WOLFF. Are you talking about a relationship?

Mr. BANDSTRA. Yes.

Mr. WOLFF. Yes, perhaps; yes.

Mr. BANDSTRA. Thank you very much.

That is all, Mr. Chairman.

Mr. STUBBLEFIELD. Do you know, Mr. Wolff, of any bakery that has engaged in the practice in the past of giving rebates?

Mr. WOLFF. As I understand it, there was an investigation some years ago relating to this system, and virtually all of the bakers were brought up at that time, and virtually all of the bakers were brought in at that time. I do not know of any bakery that had sought any relief through the Robinson-Patman Act or the Federal Trade Commission.

Mr. STUBBLEFIELD. Thank you, Mr. Wolff, for your statement.

Mr. WOLFF. Thank you.

Mr. STUBBLEFIELD. Our next witness is Mr. Dean McNeal, vice president of the Pillsbury Co. and also appearing as the chairman of the committee on agriculture of the Millers' National Federation.

We will be glad to hear from you now, Mr. McNeal.

STATEMENT OF DEAN McNEAL, CHAIRMAN OF THE COMMITTEE ON AGRICULTURE, MILLERS' NATIONAL FEDERATION; EXECUTIVE VICE PRESIDENT OF THE PILLSBURY CO.; ACCOMPANIED BY FRED H. MEWHINNEY OF THE MILLERS' NATIONAL FEDERATION

Mr. McNEAL. Thank you, Mr. Chairman, and members of the committee.

My name is Dean McNeal, executive vice president of the Pillsbury Co. I am chairman of the committee on agriculture of the Millers' National Federation and I am speaking on behalf of that organization.

We are happy to appear here today to give whatever information we can on the subject announced by the chairman—bread price increases. Of necessity, our comments will be restricted to the purchase of wheat and its conversion into flour for wholesale bakery use.

The subject of marketing margins or spreads for bakers white bread is not a new one. In fact, it is under continuous study by the Department of Agriculture by congressional order. Flour mill margins are carried in tabular form in each issue of the Wheat Situation, published by the Economic Research Service, U.S. Department of Agriculture. In a more general way, the recent report of the National Commission on Food Marketing contains information on economic conditions in the milling industry. Chairman Purcell was a member of the Commission.

It may be of interest to note that the Commission's report disclosed that the national average flour mill profit before taxes, as a percentage of sales, was only 0.22 percent in 1964–65. The report also points out that in the 15 years prior to 1964 more than half the mills in the United States closed. And a concluding quotation:

> Millers are often hungry for business and compete vigorously for sales. Flour is not a differentiated product; therefore, millers have to compete on price and services they provide for their customers.

The immediate interest of the subcommittee is in identifying "the justification of recent increases in bread prices." We will direct our attention to that phase of the matter that involves millers.

The flour miller's principal cost item is his raw material—wheat. In fact, it represents about 85 percent of the total value of milled products produced therefrom. At the present time, the cost of a bushel of wheat to the miller consists of two separate parts. One is the levy of 75 cents per bushel which must be paid to the Commodity Credit Corporation in accordance with the Food and Agriculture Act of 1962, as amended. The other segment of the wheat cost is that paid in the marketplace. As distinct from the fixed Federal levy, the market price of wheat is determined by supply and demand factors. As is well known, the market price of wheat has risen dramatically in recent months and weeks. This is reflected in the U.S. average price received by farmers for all wheat. In July 1965, that figure was $1.31; in June of this year it was $1.59; and in July, $1.74. This price of $1.74 actually received by the farmers is 49 cents higher than the average farm loan rate which was the basis for setting the cost of certificates paid by wheat processors to the Commodity Credit Corporation at 75 cents per bushel and in predicting program costs and returns.

Wheat prices paid by millers, however, are generally based on terminal market locations and are higher than average prices received by farmers, reflecting the cost of moving, handling, and storing wheat and price premiums for the higher quality wheats required to meet the rigid quality specifications of bakers. Market price trends for the two basic milling quality wheats in the two principal markets are shown on attachment No. 1. Here we see the general increase in wheat costs over a 3-year period, with very sharp advances since April of this year.

I believe you have copies of these tables before you.

Briefly, this shows the general increase in the wheat costs over a 3-year period, and it also shows the very sharp increase that occurred since April of this year.

We now turn to the manner in which wheat costs can be translated into flour prices. First, about 2.28 bushels of wheat are required to produce a hundred pounds of flour. That there is a close historical relationship between wheat costs and flour prices can be seen from attachment No. 2. This is not quite as clear as I wished it were, but it is this report with the two lines on it, two rather parallel lines. In other words, lower wheat prices result in lower flour prices and vice versa. It will be noted that for the past 16 years the price of flour has declined slightly more than the price of wheat, in spite of generally increased costs, such as wages, salaries, interest, and so forth. I think the only way to get the picture from the chart is to note that wheat prices, 1965–66, are as high as they have been at any time, where the hard winter flour price does not come back up to those previous peaks. Also, while flour prices have increased in the past 2 years, they have risen less, proportionately, than wheat costs.

The immediate situation can best be demonstrated with a table showing figures from the Wheat Situation. This is from the Economic Research Service, of the U.S. Department of Agriculture, and this is attachment No. 3. It shows on a monthly and year basis, the cost of wheat to the miller, flour and millfeed prices received, and the balance remaining to cover all other costs, taxes, and profit. This balance is sometimes referred to as the miller's margin or spread.

I now refer to this table which is also in the attachments.

A comparison of this margin—column headed: Over cost of wheat—in recent months with the annual averages indicates a general downward trend, showing that increasing wheat costs are not being fully reflected in flour prices. That is the fifth column on this particular sheet, so far as wheat is concerned. Although these are Kansas City and Minneapolis prices, changes in those market prices are generally reflected in other parts of the country. Parenthetically, there is good reason to question the accuracy of the flour price data reported by the Bureau of Labor Statistics and used in this table. The methodology used, perhaps because of limitations placed on BLS, results in flour prices generally higher than those at which flour is actually sold, according to comparisons with financial and trade press. As a result, we believe this table exaggerates the miller's margin. On the other hand, the trends shown, especially long-term should be reasonably accurate and helpful for our purposes here today.

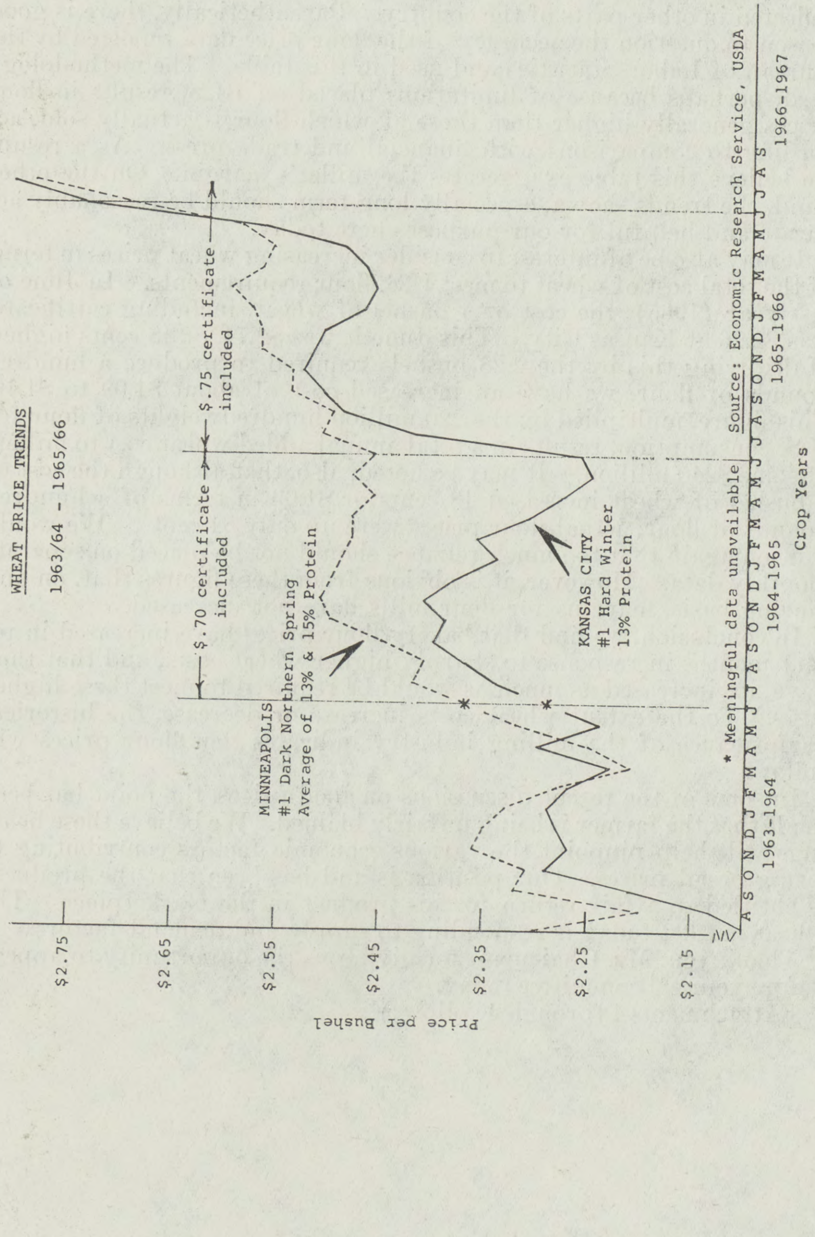
It may also be of interest to consider increasing wheat prices in terms of the total cost of wheat to meet U.S. flour requirements. In June of last year (1965), the cost of a bushel of wheat, including certificate, was $2.26 at Kansas City. This June it was $2.74, or 48 cents higher. Multiplying this by the 2.28 bushels required to produce a hundred pounds of flour, we have an increased cost of about $1.09 to $1.10. This figure, multiplied by the 220 million hundredweights of flour for U.S. consumption, results in a total annual added wheat cost to millers of some $240 million. It may be noted, also, that although the cost of a bushel of wheat increased 48 cents or $1.09 in terms of a hundred pounds of flour, actual flour prices were up only 84 cents. We would caution again that too much reliance should not be placed on separate monthly data. However, it is obvious from these figures that, on any moving basis, margins for flour mills have not increased.

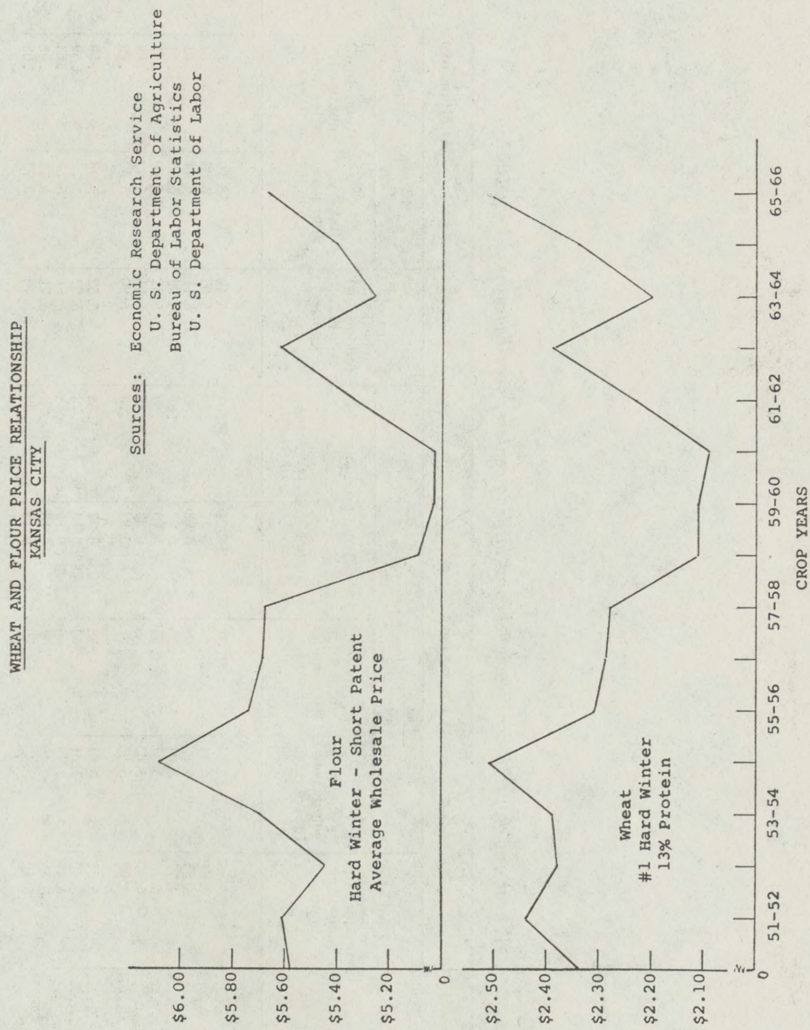
In conclusion, we find that bakery flour prices have increased in recent months in response to sharply higher wheat costs, and that they have not increased as much as would be required to meet these higher costs. To the extent wheat costs increase or decrease, the historical performance of the milling industry indicates that flour prices will follow.

In some of the recent discussions on food prices, the point has been made that the farmer is being unfairly blamed. We believe these hearings will help pinpoint the various economic factors contributing to rising bread prices. Our position is and has been that the producer is entitled to a fair return for his product in the marketplace. The wheat market today is responding to supply and demand factors.

Thank you, Mr. Chairman, for giving us the opportunity to appear before your subcommittee today.

(Attachments 1 through 4 follow:)


WHEAT PRICE TRENDS
1963/64 - 1965/66
$.70 certificate included
$.75 certificate included
MINNEAPOLIS
#1 Dark Northern Spring
Average of 13% & 15% Protein
KANSAS CITY
#1 Hard Winter
13% Protein
* Meaningful data unavailable
Source: Economic Research Service, USDA
A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S
1963-1964
1964-1965
1965-1966
1966-1967
Crop Years
$2.75
$2.65
$2.55
$2.45
$2.35
$2.25
$2.15
Price per Bushel


WHEAT AND FLOUR PRICE RELATIONSHIP
KANSAS CITY
Sources: Economic Research Service
U. S. Department of Agriculture
Bureau of Labor Statistics
U. S. Department of Labor
Flour
Hard Winter - Short Patent
Average Wholesale Price
Wheat
#1 Hard Winter
13% Protein
$6.00
$5.80
$5.60
$5.40
$5.20
0
$2.50
$2.40
$2.30
$2.20
$2.10
0
51-52
53-54
55-56
57-58
59-60
61-62
63-64
65-66
CROP YEARS

Wheat and flour: Price relationship at milling centers, year beginning July 1957–66

	At Kansas City					At Minneapolis				
	Cost of wheat to produce 100 pounds of flour [1]	Wholesale price of—				Cost of wheat to produce 100 pounds of flour [1]	Wholesale price of—			
		Bakery flour per 100 pounds [2]	Byproducts obtained, 100 pounds flour [3]	Total products			Bakery flour per 100 pounds [2]	Byproducts obtained, 100 pounds flour [3]	Total products	
				Actual	Over cost of wheat				Actual	Over cost of wheat
Year and month:										
1957–58	$5.18	$5.64	$0.57	$6.21	$1.03	$5.40	$6.10	$0.57	$6.67	$1.27
1958–59	4.81	5.14	.63	5.77	.96	5.02	5.68	.64	6.32	1.30
1959–60	4.83	5.03	.60	5.63	.80	5.11	5.44	.61	6.05	.94
1960–61	4.77	5.04	.58	5.62	.85	4.92	5.36	.61	5.97	1.05
1961–62	5.13	5.37	.58	5.95	.82	5.42	5.70	.61	6.31	.88
1962–63	5.47	5.65	.68	6.33	.86	5.61	5.92	.68	6.60	.99
1963–64	4.99	5.25	.67	5.92	.93	5.20	5.52	.66	6.18	.98
1964–65:										
July	5.34	5.64	.58	6.22	.88	5.52	5.98	.59	6.57	1.05
August	5.40	5.51	.62	6.13	.73	5.52	5.77	.59	6.36	.84
September	5.47	5.49	.66	6.15	.68	5.61	5.67	.63	6.30	.69
October	5.45	5.49	.69	6.18	.73	5.71	5.74	.68	6.42	.71
November	5.49	5.48	.70	6.18	.69	5.73	5.77	.68	6.45	.72

December	5.43	5.39	.86	6.25	.82	5.70	5.62	.82	6.44	.74
January	5.38	5.39	.77	6.16	.78	5.68	5.61	.75	6.36	.68
February	5.38	5.31	.71	6.02	.64	5.67	5.59	.70	6.29	.62
March	5.27	5.30	.73	6.03	.76	5.65	5.56	.75	6.31	.66
April	5.18	5.28	.74	6.02	.84	5.63	5.59	.81	6.40	.77
May	5.13	5.26	.63	5.89	.76	5.65	5.57	.68	6.25	.60
June	5.15	5.36	.67	6.03	.88	5.61	5.74	.68	6.42	.81
Average	5.33	5.41	.70	6.11	.78	5.64	5.68	.70	6.38	.74
1965–66:										
July	5.52	5.65	.68	6.33	.81	5.86	6.01	.71	6.72	.86
August	5.68	5.61	.66	6.27	.59	5.70	5.94	.67	6.61	.91
September	5.72	5.57	.68	6.25	.53	5.81	5.88	.71	6.59	.78
October	5.77	5.60	.67	6.27	.50	5.79	5.98	.67	6.65	.86
November	5.75	5.62	.75	6.37	.62	5.86	5.99	.76	6.75	.89
December	5.72	5.62	.77	6.39	.67	5.86	5.96	.77	6.73	.87
January	5.63	5.62	.79	6.41	.78	5.88	5.99	.80	6.79	.91
February	5.61	5.57	.86	6.43	.82	5.92	5.99	.76	6.75	.83
March	5.63	5.54	.73	6.27	.64	5.86	5.91	.74	6.65	.79
April	5.68	5.57	.70	6.27	.59	5.84	5.92	.73	6.65	.81
May	5.86	5.80	.71	6.51	.65	5.91	6.05	.73	6.78	.87
June	6.25	[4] 6.20	.68	6.88	.63	6.16	[4] 6.45	.72	7.17	1.01
Average	5.74	5.67	.72	6.39	.65	5.87	6.01	.73	6.74	.87

[1] Based on 73 percent extraction rate, cost of 2.28 bushels: Kansas City, No. 1 Hard Winter, 13 percent protein, and at Minneapolis, No. 1 Dark Northern Spring, simple average of 13 percent and 15 percent protein. Includes domestic certificate beginning July 1964.

[2] Quoted as 95 percent patent at Kansas City and standard patent at Minneapolis, bulk basis.

[3] Assumes 50-50 millfeed distribution between bran and shorts or middlings, bulk basis.

[4] Preliminary.

Mr. STUBBLEFIELD. Thank you, Mr. McNeal.

Are there any questions, Mr. Belcher?

Mr. BELCHER. No questions.

Mr. STUBBLEFIELD. Mr. Findley?

Mr. FINDLEY. Mr. Chairman and Mr. McNeal, I have two reasons to express pleasure at your appearance here. First of all, a plant of your company is located in Springfield, Ill., in my district, one of the very valued parts of the economic life there, and, second, it does give me a chance to hear your presentation and also to present a couple of clarifying questions.

You referred to the cost of the certificate processing fee or the bread tax at 75 cents a bushel.

Could you give us an estimate of what the price of flour today would be if you did not have to buy that 75-cent certificate on wheat milled for food?

Mr. MCNEAL. Based on all historical experience which we would expect to recur, and assuming that this 75-cent certificate was not replaced by some other factor, it would amount to $1.71 per hundredweight.

Mr. FINDLEY. $1.71?

Mr. MCNEAL. Per hundredweight of flour.

Mr. FINDLEY. Per hundredweight of flour?

Mr. MCNEAL. Yes, sir.

Mr. FINDLEY. Would you express that in precentage terms? That would amount to what percentage reduction in the price of flour?

Mr. MCNEAL. It would be reduced from a price of just over $6—about $6.20 on the Kansas City flour basis, so that it would be somewhere in the 25-percent area.

Mr. FINDLEY. About 25 percent?

Mr. MCNEAL. That is a very rough statement, I want to make clear.

Mr. FINDLEY. I am sure that you are aware that I have introduced a bill which would eliminate the requirement in our wheat program under which the millers are required to buy the certificates which are often referred to as the "bread tax?"

Mr. MCNEAL. I am aware of that.

Mr. FINDLEY. And if my bill were enacted into law, then the industry could reasonably expect that the price of flour today would go down 25 percent?

Mr. MCNEAL. About $1.71—whatever percetange that is of present prices.

Mr. FINDLEY. Whatever the figure is in percentage; whatever that figures out in percentage.

Now, last year, the administration recommended not only that the 75-cent certificate be retained, the 75-cent bread tax, but also recommended an increase in the amount by about 57 cents which would bring it up over $1.30. Can you give us an estimate of how much flour would cost today if this increase in the bread tax, as requested by the Administration, had been made a part of the law?

Mr. MCNEAL. Well, it would be that 57 times 2.3, or 2.28, so that it would be—$1.30 or more.

Mr. FINDLEY. $1.30 per hundredweight more?

Mr. MCNEAL. Yes.

Mr. Findley. And once more would you give that, roughly, in terms of percentages.

Mr. McNeal. That would be approximately a 20-percent increase—slightly more than 20 percent, based on the most recent official Government figures we have.

Mr. Findley. So, to summarize it, the increase in the bread tax requested of the Congress last year, but rejected, would have increased flour prices 20 percent higher than we have right now. Is that a fair statement?

Mr. McNeal. I think that is a correct statement.

Mr. Findley. An earlier witness indicated that there might be some labor contract practices in the distribution or the sale of bread which tend to keep costs higher, perhaps even aggravate the cost to the bakery. I know that there are unions which have taken a progressive approach in other lines, such as the Communications Workers of America, for example. They have not resisted technological changes. Could you state as to your experience with unions in regard to the processing of wheat into flour?

Mr. McNeal. Our experience—I speak for the company I represent, but I think I can also speak for the industry—has been one that, while it takes considerable give and take in working on these changes, we have been able to effect efficiency. I want to point out, however, as we said, that 85 percent of our total return goes out for the raw materials. So, we are dealing with some part of 15 percent when we speak of labor costs, do you not see, and this is quite different than in some other industries and some other aspects of the bakery industry. So, we have had efficiencies. We did not expect them to be easy to come by, but we have been able to make some progress in this direction.

Mr. Findley. The fact that the price line of flour has followed almost precisely the price line of wheat would tend to bear out that?

Mr. McNeal. That is correct.

Mr. Findley. That indicates, I assume—am I correct—that the labor costs have risen?

Mr. McNeal. Labor costs, or any measurements of that kind, have risen rather steadily and substantially, but (1) it is a small part of our total cost and (2) we have been able to make reasonable gains in efficiency.

Mr. Findley. I would like to speak from a personal experience that I had in your Springfield plant. I was amazed as to the degree of automation which has been created in that plant, even to the handling of cartons of flour and cake mixes and things like that. Automatic equipment within the plant saves a great deal of labor expense. It leads me to think that the unions have, indeed, been farsighted and progressive in their attitude on technological changes.

Mr. McNeal. Working together, we have been able to make significant progress in this connection.

Mr. Findley. Thank you.

That is all, Mr. Chairman.

Mr. Stubblefield. Mr. Callan?

Mr. Callan. How much storage do you have?

Mr. McNeal. You mean as an individual company?

Mr. Callan. Yes.

Mr. McNeal. We would have something in the neighborhood, for all grains, of about 30 million bushels.

Mr. Callan. How much for wheat?

Mr. McNeal. It is interchangeable, but directly connected with our flour mills—I do not think terms of the total, so I have to do a little calculating here—I would say about 12 million.

Mr. Callan. When did you buy the wheat that you are selling in the flour today?

Mr. McNeal. Well, we buy all throughout the year. This year—ordinarily, we would buy quite a bit of wheat, quite a bit more than the normal proportions in June and July in the Southwest and in August and September in the Northwest. This year, because of the decided holding tendency on the part of the farmers, and the fact that while we normally have some setback in the cash futures during the period—the cash and cash futures both went up, but cash went up as full as much as the futures as reflected by the prices we paid this year, and we have not accumulated wheat to the extent that we have in prior years, and we do follow a policy of hedging.

Mr. Callan. You are on the commodity exchanges?

Mr. McNeal. When we buy cash wheat, we usually sell it in the form of flour or we sell an offsetting future, so that without that—just speaking on this point—without the futures market, we would not be able to operate in the milling industry on the kind of margins that we are talking about here today, because we are able to hedge the price by selling the futures, and we do.

Mr. Callan. Do you think that there is price fixing in the commodity market? Do you think that there is?

Mr. McNeal. I can only answer that in this way. On any one of the principal markets we get substantial hedging orders executed within a very small fraction of a cent and we are able to do so from the price we put in. We have not had any difficulty. The futures market is one of the great things, so far as our industry is concerned, in permitting the kind of margins we are talking about here.

Mr. Callan. Do you think there is any price fixing in the commodity markets?

Mr. McNeal. I do not think there is, but I am not in a position to make any more of a statement than that. Our experience has been that the grain markets are the most competitive markets you will find anywhere as evidenced by the fact that at any time during the day you can go into these markets and within a matter of seconds execute a buy or sell order. And we have been hedging on the buying or the selling side. And, whether we bought or sold in the cash market, we can execute without much variation in the price from what we are looking at on the ticker when we make our decision. I cannot conceive that there would be any measurable amount of—what was the word?

Mr. Callan. Price fixing.

Mr. McNeal (continuing). Price fixing, or we would not be able to do that.

Mr. Callan. According to the figures that I have from out in the Nebraska area, the milling industry pretty well follows the price of wheat out there, and in talking about this certificate, is it true that the increase in the price of wheat has caused the price increase of about one-half a cent in a loaf of bread?

Mr. McNeal. I do not know enough about how to figure it out. As evidenced by these figures that agree with others that I have seen in the past 12 months, from June to June, it increased about $1.09 or $1.10 a hundredweight of flour. There will be other witnesses who can take up that subject and interpret it much better for you than I.

Mr. Callan. I think you are about right. It was about $5.95 a hundredweight in July of 1965 and it is about $6.70 a hundredweight August 5 of this year. That would be about right. And the increase then, in the flour, if the sixty-five one-hundredths of flour in the bread is correct, that would be about one-half cent actual increase in the bread; would it not?

Mr. McNeal. I do not know. That would be a calculation as to how many loaves of bread there are in a hundredweight of flour that you get.

Mr. Callan. What percentage of the flour business do you have in the United States?

Mr. McNeal. I do not know. As an individual company, do you mean?

Mr. Callan. Yes, sir.

Mr. McNeal. We are one of the two or three biggest companies, but our total percentage is a relatively small percentage of the total. As has been evidenced by the statements previously made, about one-half of the mills have closed in the last 15 years. There have been fully as many closed by the bigger companies as by the smaller companies. The leading company at one time closed about 17 mills not too many years ago.

Mr. Callan. Thank you.

That is all, Mr. Chairman.

Mr. Stubblefield. Mr. Redlin.

Mr. Redlin. I appreciate your testimony, Mr. McNeal. I am sure that you get some grain from North Dakota as well as from some other areas.

For my information particularly, I would like to know how you go about selling flour to the baker.

Mr. McNeal. I think that this is typical of any company in the industry. We have a bakery sales division or department. Obviously, we are calculating the net cost of our flour every day, and then through negotiations with all of the buyers from all of the baking companies each day a price is determined and we either turn that business down or take it, depending on whether or not we feel that that is the price that will meet our objectives. Those objectives have not been as high in recent years as we wish they could have been.

Mr. Redlin. Your company negotiates individually with various buyers?

Mr. McNeal. Yes.

Mr. Redlin. You do not offer a flour at a price and hope that the people will buy it?

Mr. McNeal. We offer it at a price. We have a list price on the flour, that is, each day. This is based on our calculated cost, however, like any other bargaining situation in the marketplace. If the bakers are not willing to pay that price that day, based on the actual cost or the bid—and each day some biddings are done by some milling company with some baker but not necessarily at the same time or the same ones at any particular time, so that it is really the typical haggling and bargaining of the marketplace with the seller going out with a price and the buyer coming in with a price, and an attempt to get together or not to get together.

Mr. REDLIN. If you sold a certain bakery at a given figure today, and another bakery came in and gave you the same offer, would you be apt to sell them?

Mr. McNEAL. Yes.

Mr. REDLIN. You sell to them on long-term contracts, or is this, also, a day-to-day sale that you would be making?

Mr. McNEAL. It varies, depending on the buyer, and it varies with the time. Sometimes, most of the buyers will be on a PDS basis or nearby. At other times, many of them, perhaps most, will be 30, 60, or 120 days. It depends on the buyer's ideas as to the kind of a buy he can make at a particular time. Recently, there has been a tendency for more short-term basis.

Mr. REDLIN. Do you ever have contracts with an escalation type factor in it at all?

Mr. McNEAL. We do not.

Mr. REDLIN. You do not?

Mr. McNEAL. No.

Mr. REDLIN. One other question, Mr. Chairman.

In relation to transportation as it relates to the flour costs; in other words, a baker in Boston or a baker in Kansas City or a baker in Minneapolis, does each pay a different price directly to the transportation of flour costs, or do you have some kind of base pricing system, or how is it handled?

Mr. McNEAL. Generally, you will find that the Kansas City wheat market and that flour market pretty well reflects itself in other areas of the country. That is more true in the central, eastern part of the country, but reasonably true in the West. These prices cannot get too far out of line with each other. Sometimes Spring wheat flour will be a little higher relative to the normal relationship with the Southwest Hard, and then as you get a changing supply—more supply than demand—the changing situation will swing around, but generally you will have your transportation differences between the Middle West markets or Kansas City, or the eastern and other central markets.

In the West you have a little different situation because of the transportation structure not working from Kansas City west as it does from Kansas City east.

Mr. REDLIN. What do you mean by that?

Mr. McNEAL. Many of your western mills will take wheat from Montana, Idaho, Washington, Oregon. Of course, while it has a relationship to Kansas City, it is based on historic market difference. And we also have a relationship, because if you come up with some line in Kansas City, which is high relative to the West, why, it pulls that line and it moves west and pulls the wheat east, and vice versa. But, generally, the Minneapolis-Kansas City and other central and eastern markets are looking for the same markets east, north, and south for their outlets, whereas the western mills are quite dependent on the west coast for their markets for flour. They use local wheat to a much greater extent.

Mr. REDLIN. In other words, then, if you are selling flour in Boston, the transportation would be added to the Kansas City price?

Mr. McNEAL. In Boston—it would depend on the season of the year. Basically, it would be a flour price in either Kansas City or Minneapolis depending on what kind of flour it was, and here, again, it would be a matter of dealing with the buyer. But, generally speaking, it would be transportation from those points to that market. You have to remember that at certain seasons of the year it will be by truck, rail, or water, and in other seasons it would be strictly truck and rail. So, there are quite a few combinations of transportation. Usually, you cannot just take a certain figure and apply it, but it is, basically, the transportation difference between those points.

Mr. REDLIN. Do you not use the St. Lawrence Seaway?

Mr. McNEAL. I am referring to the lakes—the entire lakes system of transportation. Throughout the winter they move wheat to Buffalo and points like that to be milled while the lakes are frozen over, because of the transportation advantage of doing so.

Mr. REDLIN. During the period the flour is apt to be a little bit higher in price to reflect the increased cost or the reduced cost, whichever the case might be?

Mr. McNEAL. It would be apt to reflect whatever the cost relationship might be, yes, sir.

Let me just answer that a little further.

It would reflect what the total competitive situation is in that area, and after you get your base Kansas City price, transportation is a big factor in that competitive situation or system in Boston or any place else.

Mr. STUBBLEFIELD. What he is referring to is the transportation cost f.o.b. Kansas City, Minneapolis—to Boston. That is what he is referring to.

Mr. McNEAL. It varies. In most cases, though, we will sell to a point and not otherwise, because much of your wheat in the northwest is shipped as wheat and milled in Buffalo as you gentlemen know.

Mr. STUBBLEFIELD. Any questions, Mr. Bandstra?

Mr. BANDSTRA. I have no questions.

Mr. STUBBLEFIELD. Mr. Findley.

Mr. FINDLEY. I have two more questions.

Several times during these hearings, the cost of wheat in a loaf of bread has been mentioned as being a relatively minor item; and, percentagewise, perhaps, this is true, but a lot of wheat moves to the consumer as flour. The 75-cent a bushel certificate or bread tax, which amounts to about 25 percent of the price of flour as it leaves your mill. With that point in mind, should the consumers of America reasonable expect that the flour on the grocer's shelf would be, say, 20 to 25 percent less if the millers were not required to pay this bread tax?

Mr. McNEAL. I would only answer that to this extent, because I do not know beyond that point, but so far as the price of the flour as it leaves the mill is concerned, we could expect that that, basically, it would be reduced by the amount of the processing tax.

This might be of interest. I just happened to check this. In the past 12 months, the price of family flour has gone up actually a little less than the price of the wholesale price but pretty close to the same amount. The only difference in the way of pricing is in rounding out the figures.

Mr. FINDLEY. I believe that your firm processes wheat into feed for animals. Am I correct on that point?

Mr. McNEAL. Uses wheat for what?

Mr. FINDLEY. That your firm processes wheat into feed as well as into food uses?

Mr. McNEAL. A very small amount, but we do a small amount yes.

Mr. FINDLEY. Using the wheat in that category. Are you required to pay the processing tax?

Mr. McNEAL. On nonfood uses, we do not have to pay the tax on that.

Mr. FINDLEY. So, you do not have to pay a tax at all on wheat processed into chicken feed, but you have to pay what amounts to a 25 percent tax on wheat for baby food; is that right?

Mr. McNEAL. Yes.

Mr. FINDLEY. Thank you.

Mr. STUBBLEFIELD. Mr. Bandstra.

Mr. BANDSTRA. I have a question, Mr. Chairman.

Mr. McNeal, I understood, in responce to Mr. Findley's question that you were not guaranteeing, but if we were to pass Mr. Findley's bill, and I doubt that we will but assuming that we did, it would reduce the price of what you call family flour to the housewife 25 percent?

Mr. McNEAL. What I did say was that flour prices from the mill, as they leave the mill—and we base this in all of these pricing experiences that we have, as illustrated in these graphs—that we would have, basically, a $1.70 reduction in the prices for bakery flour and the same amount down that it has gone up in the case of family flour. The 25 percent—I want to hedge on that a little bit, and that is why I get back to the dollars.

Mr. BANDSTRA. You have no control over it other than that?

Mr. McNEAL. That is the point.

Mr. BANDSTRA. You are in no position to guarantee to this subcommittee that it will be reduced to the housewife at all?

Mr. McNEAL. It gets beyond our part; I could not speak about that.

Mr. BANDSTRA. So, by the same token, I am sure that you are in no position to guarantee this subcommittee that the price of bread would be reduced at all to the housewife if we passed the Findley bill; is that correct?

Mr. McNEAL. We would not even have any thoughts on that at this point, because we do not know. This would be beyond our scope.

Could I make one additional very brief statement, Mr. Chairman?

Mr. STUBBLEFIELD. Yes.

Mr. McNEAL. I am sorry, Mr. Bandstra.

Mr. BANDSTRA. Go ahead.

Mr. McNEAL. I want to make it clear—and this is brought out in our testimony, both before the House Committee on Agriculture and thhe Senate Committee on Agriculture, that we believe that the wheat farmer should get a good return on his investment and the labor that he has. The objection we had, and still have, and objected to rather vigorously, was the fact that when the legislation was considered, everyone was thinking in terms of $1.25 loan plus the 75-cent processing tax. The thing that we object to is the noncompetitive situation in which this puts wheat, because the wheat markets are going to reflect the supply and the demand. That is what they are doing now. We think they are doing their historic job of reflecting supply and demand, and they have gone up by 49 cents a bushel.

The thing that we objected to and still object to is the 75 cents being a frozen amount on top of it, and therefore, as compared with other competing foodstuffs, it keeps wheat in a noncompetitive situation. We do change here and there in this regard: We believe, from experience, that everything in the consumer's market basket and in the industrial market basket in the food field is somewhat competitive with each other. And, as the result of this, we believe it has limited our enthusiasm for developing new products, and has curtailed, so far as the competitive position is concerned with other competing foodstuffs in the market, consumption. I want to make it clear that our whole testimony has to do with how the 75 cents was paid. We were not arguing at the level that the farmer got. We do not think that is our purpose, and we are willing for him to get a good return, but we do feel that putting in, as a frozen amount that floats as a frozen amount on top of the market, that it has dangers in it and disadvantages in the products that we are interested in merchandising.

Mr. BANDSTRA. What does wheat compete with, primarily, in the way of food items?

Mr. McNEAL. As I said, we feel that the total American stomach is only so big, so that wheat competes with everything to a limited extent, but it competes with other cereal grains, in our opinion, to quite an extent, but in the development of foods—these protein foods—for relief shipments overseas, the major work on the basic product here is not going to be on wheat as long as wheat is so high relative to other competing foodstuffs. We have a selfish interest in this particular situation.

Mr. BANDSTRA. I understand that, but wheat has not been doing too badly, because you are going to have a 15-percent increase in the allotment of wheat acreage next year. I do not know that we are going to have any increase in rice allotments next year.

Mr. McNEAL. The increase now will be 30 percent because of the announcement just this week. So that there are two 15-percents. Flour exports have been pretty consistent over the years, while wheat exports have been a small figure, but coming up to 850-odd million bushels this past year. I am speaking of the fact that the domestic users of wheat, while the population has gone up very sharply—you are all familiar with the figures—the amount of wheat used domestically has remained at a flat line, about 525 million bushels.

Mr. BANDSTRA. Do you know what a 25-pound bag of wheat flour costs in the grocery store today?

Mr. McNEAL. No, I do not.

Mr. BANDSTRA. Thank you.

That is all, Mr. Chairman.

Mr. STUBBLEFIELD. Mr. Findley.

Mr. FINDLEY. From your experience with customers buying your wholesale flour, have you observed that they have a constant percentage markup in placing your product on the shelf for the consumer?

Mr. McNeal. Your statement is on family flour now?

Mr. Findley. Yes, sir.

Mr. McNeal. I first should say that in my area of business at the Pillsbury Co. I am not in the best position to observe that. It would be a second- or third-hand observation but taking it as a second- or a third-hand observation, I would say, yes, they have been thoroughly consistent in that respect.

Mr. Findley. It is your observation that the retail business is still relatively competitive?

Mr. McNeal. Yes, sir; that is correct.

Mr. Findley. Thank you.

That is all, Mr. Chairman.

Mr. Stubblefield. The committee will stand in recess until 2 o'clock this afternoon.

(Whereupon, at 12:20 p.m., a recess was taken until 2 p.m., the same day.)

AFTERNOON SESSION

Mr. Purcell. This will be off the record.

(There was an off-the-record discussion.)

Mr. Purcell. We will now call Mr. Desmond O'Connell, American Bakeries Co.

STATEMENT OF DESMOND O'CONNELL, AMERICAN BAKERIES CO.

Mr. Purcell. We will be glad to hear from you at this time.

Mr. O'Connell. I appreciate——

Mr. Purcell. Are there copies of your statement here?

Mr. O'Connell. No, sir. I do not have a prepared statement. If you wish, I will submit one later. But I have some comments I would like to make.

Mr. Purcell. Surely, and proceed as you desire, without objection, we will be glad to receive any statement you want to submit after you have testified.

Mr. O'Connell. Thank you.

Mr. Purcell. We will be glad to hear your extemporaneous comments now.

Mr. O'Connell. That is exactly what it is.

I appreciate very much the invitation to be here and particularly so after listening to testimony this morning and reading some of the papers which had a great deal to say about the baking industry and its management, not all good.

As I say, I do not have a written statement but I would be glad to address myself to the question which my friend John Schnittker, I think, described as who is the culprit?

In my opinion, there is no culprit. There is no culprit involved unless it just be the times in which we live. Certainly we do not accuse the miller or the farmer, the wheatgrower, of being the culprit. It happens that the baking industry is the largest domestic user of farm products, wheat, sugar, eggs, fruits, and so forth, and until our export business grew so rapidly, we were the largest user of wheat of our wheat-producing States. In fact, I think you might be interested that I am one of the executive committee of Wheat and Wheat

Foods Foundation of which Howard Morton, a wheatgrower, is chairman, George Pillsbury, a miller, is vice chairman and I am treasurer. George Meeker, who spoke here yesterday or the day before is also on the executive committee. And we are committed in that organization, and attempting to get it started, to promote the consumption of wheat domestically and worldwide. Of course this movement started when we thought we had a surplus. The problem is a little different today, but we still think there is some long-term good to be accomplished through the cooperation of bakers, millers and wheat growers. We feel our interests are very similar.

Further, we feel that our companies perform a very useful economic and social function, providing a good healthful product at the minimum cost possible and providing, by the way, very significant employment.

The situation you are concerned with, while unwanted by all of us, is something over which we have no control. The baking industry profits or margin of profits from 1947—from the period 1947–57, declined from 4.8 percent net on sales to 2.8 and then in the last 2 years has declined to between 1 and 2 percent for the industry as a whole. This is in the face of a period of time when the net profits of, for instance, the top 500 corporations of the country have averaged 5.5 percent net after taxes. On invested capital, our profit is 5.7 percent against 11.8 for the average of American industry.

Now, this drop in profits of baking companies was due to mounting costs of all kinds, without compensating price adjustments. There were no price adjustments in the period of 1960 to 1965. There were partial price adjustments in 1965, and now we have price adjustments currently which are the subject of your concern.

I think our case is simple and it is just like our families. Our cost of living has gone up. The spread between our income and our cost of living has been steadily dropping for 20 years, but more sharply in the last 10. If this happened to a family, which it has, they would buy cheaper products or give up buying clothes or new homes or they would hopefully try to increase their income. We cannot give up—we cannot buy cheaper products nor can we give up buying the ingredients that go into our bread, so that the only recourse is to increase our income. Certainly, to maintain our qualities we must continue to buy the good ingredients that we are now buying, and by the way, the quality of bread and cake in America today is better than it has been in history. We must continue to buy supplies and pay our employees, and that is about all we are doing, because our price increases are really reduced to zero by increases in our cost of living and all the factors going into it.

Our prices have not gone up 3 or 4 cents as reported in the newspapers, nor have they moved uniformly. Local increases in the last 2 years have perhaps totaled almost a cent and a half a pound and in the previous 5 years they were nonexistent as I mentioned before.

Let me point out that flour costs and not wheat—we do not buy wheat, we buy flour—are roughly 20 percent of the cost of a pound of bread or any unit of bread and it has been lost sight of that, for instance, labor costs are twice that, or around 40 percent, total labor costs. On top of the increases in flour, other ingredients, labor, we have had social security tax increases, we have increases in the cost of replacing our equipment, and maintaining our equipment. Obviously with all other costs rising, the price of bread can never be geared to the price of wheat or the price of flour as seems to have been mentioned many times in the papers recently, that if the price of flour went up x percent, then that is what the price of bread ought to go up. There are too many factors, of course, involved. It is like saying that the cost of a new home or house should be governed by the cost of the lumber or trees from which the lumber is cut.

Our cost increases in flour, labor, and other ingredients and taxes since January 1, 1966, alone, would have been enough to put every major baking company in the red without a price adjustment.

In conclusion, I would like to say that we do not consider the farmer the culprit nor the miller, nor do we consider ourselves to be. We are in a period of rising costs of all kinds and that is a fact of life that, whether we like it or not, we must compensate for.

Mr. Purcell. Does that conclude your statement?

Mr. O'Connell. Yes, sir.

Mr. Purcell. Mr Redlin, do you have any questions?

Mr. Redlin. I would like to ask you, sir, the question about how—the other side of the fence—how do you bakers buy your flour?

Mr. O'Connell. We have purchasing employees who are in pretty continuous communication with the millers. We try to do some guessing as to the future.

Now, there have been times in the last 2 months when we could not have bought flour ahead if we had wanted to because the millers were unable to make longer commitments, not knowing themselves. We do at times make commitments for 120 days or longer. In an ordinary year, we would have done that by now. But the price of this is arrived at essentially through negotiation with quite a substantial number of different millers. We change mills from time to time, both because of price or because of quality requirements that are peculiar to the location that we do not think are being met.

Mr. Redlin. Are you satisfied, sir, that the millers sell to you or are willing to sell to you just as readily as any other bakers at the same figure on any one day for the same quality product?

Mr. O'Connell. Yes.

Mr. Purcell. Is that all?

Mr. Redlin. Yes, sir.

Mr. Purcell. Mr. Findley?

Mr. Findley. Mr. O'Connell, you represent the American Bakeries Co.?

Mr. O'Connell. Yes, sir.

Mr. Findley. Am I correct there?

Mr. O'Connell. Yes, sir.

Mr. Findley. An individual firm as opposed to an association, is that correct?

Mr. O'Connell. This is an individual firm owned by stockholders listed on the New York Stock Exchange.

Mr. Findley. If the repeal of the break tax, which apparently amounts to about 25 percent of the current value of flour, were accomplished and this resulted in a reduction in the wholesale price of flour to that extent, to, say, 25 percent, what effect would this have on the price at which you could sell bread?

Mr. O'CONNELL. I really do not know, Congressman, because it would depend—and I am not trying to hedge either—because I would have to know when this happened and what other costs were in our picture at the time.

Mr. FINDLEY. As of yesterday or the most recent date on which you have information.

Mr. O'CONNELL. You mean if we bought flour yesterday at what difference in price?

Mr. FINDLEY. If at one-fourth less, 25 percent of which is approximately the—which represents the cost of the certificate——

Mr. O'CONNELL. I would have to know——

Mr. FINDLEY (continuing). The millers must buy when they bill wheat for food use as opposed to feed.

Mr. O'CONNELL. I would have to know what the——

Mr. FINDLEY. Can you tell me about how much weight of flour goes into the average 1-pound loaf of bread?

Mr. O'CONNELL. Well, about 100 pounds of flour make about 150 pounds of bread. For instance, a figure——

Mr. FINDLEY. Three-fourths of a pound of flour to a pound of bread, is that about right? Seven-tenths of a pound of flour to a pound of bread?

Mr. O'CONNELL. Yes. Now, sombeody was talking, for instance, this morning about the fact that we have been buying flour at a $1.08 and a $1.10 over the same period a year ago. The impact of that on a per pound of bread—now, our best-selling loaves are larger than 1 pound—would be in the area—I use a figure point 69—69 hundredths of a cent. John Schnittker happened to use seven-tenths of a cent but, apparently, our figuring was pretty close. Can you work backwards from that?

Mr. FINDLEY. I was trying to get at the items of cost in a loaf of bread that have increased substantially in the past year.

Mr. O'CONNELL. Yes, sir.

Mr. FINDLEY. Now, the Secretary—rather, the Under Secretary—of Agriculture I believe indicated that the price of a loaf of bread, a pound loaf of bread, has advanced about 1.1 cents in the last year. I believe I am correct on that.

Mr. O'CONNELL. Yes.

Mr. FINDLEY. How do you account for that 1.1 cents? There is an increase in the cost of flour. Could you tell us how much that figures?

Mr. O'CONNELL. Seven-tenths of a cent.

Mr. FINDLEY. About seven-tenths of a cent.

Mr. O'CONNELL. This is my own figure now, not an industry figure.

Mr. FINDLEY. Right. Now, you have other farmer-produced items that go into bread ordinarily, like lard and dried milk which have increased. Are there other ingredients cost items which have advanced which you could express?

Mr. O'CONNELL. Sugar.

Mr. FINDLEY. How much of the cost of a loaf of bread have the other ingredient items advanced during the last year?

Mr. O'CONNELL. I am sorry. I am not sure I have got that figure.

Mr. FINDLEY. Would it be——

Mr. O'CONNELL. For instance, in our company the increase in milk, exclusive of an increase that went into effect last night, would have cost us a half million dollars a year.

Mr. FINDLEY. Milk prices have advanced percentagewise much more that wheat prices, am I correct there, in the last year?

Mr. O'CONNELL. Milk prices have advanced some 37 percent and wheat prices have advanced, I think, between 18 and 20.

Mr. FINDLEY. Although your information is not precise, it does appear to me that most, if not all of the increase in the price of a pound loaf of bread today as compared with a year ago, can be attributed to increased cost of ingredients, without any reference to other increased costs like social security and machinery, maintenance and labor cost. Am I correct there?

Mr. O'CONNELL. If you say most, meaning more than 50 percent, yes.

Mr. FINDLEY. Well, you have already indicated seven-tenths of 1 cent for increased wheat costs. That leaves only four-tenths of 1 cent to be assigned to all other factors.

Mr. O'CONNELL. We have been accused, Congressman Findley, of being poor managers. I think the one thing we have to as managers, and I am sure you will bear with me on this, is to recognize that managing a company and trying to make a profit is a conglomerate of many, many costs which, if isolated in themselves, such as labor in any particular year, could put you out of business. If it was not compensated for by some increased efficiencies or increased volume or something of this sort. So when we try to isolate costs, even flour, and say we must compensate for this by a specific price increase, it ignores all those other factors going into management of a business.

Now, I am not trying to duck your question. In the context of what I said, from January 1 until now, seven-tenths of a cent out of 1.1 cent is due to flour increase. At the same time we have had labor increases and probably will have more during the year.

Mr. FINDLEY. One of the witnesses this morning indicated that marketing practices brought about by labor union contracts and such relations might have a major bearing on some of the distribution costs of bakeries. Do you have any experience in that realm? Could you give us any specific information?

Mr. O'CONNELL. There was one point Mr. Wolff could have projected himself to. He talked about consignment selling. He might also have mentioned that we have a perishable product. The two go together and they are the two things that the baking industry is unique in. We do sell on consignment and we have a perishable product which must be taken care of in some way, must be taken back because it is on consignment, and then disposed of at a minimal loss. The reason is not a very easy one to explain. Certainly this is an industry that has traditionally a high cost of distribution. The reason is only partly union regulations which would not permit us to do what he suggests. It is also the demands of the retailer that we service him in the way that he wants which is on consignment selling. Now, if one of us was to use the brilliant managerial genius that was mentioned this morning we do not have, and was to embark into a program of warehouse delivery and bulk shipment, and all the others proceeded on the other tack, that one who did it would probably be out of business pretty quickly.

Mr. PURCELL. Mr. O'Connell, this can be off the record.

(There was an off the record discussion.)

Mr. PURCELL. We will recess now.

(There was a short recess.)

Mr. PURCELL. If the committee will please come to order, I believe we will continue. When Mr. Findley gets here we will allow him certainly to take up questions that he was pursuing with Mr. O'Connell.

Mr. O'Connell, I have a few questions that I would like to have in the record, please, sir. I would like to have a better understanding of the practice in the industry or your own company, in regard to the method of paying what I guess you call route salesmen. I would appreciate your explaining the time contract, the way these men are paid, I understand it is on a commission basis and therein lies my lack of understanding of it.

Mr. O'CONNELL. Well, our salesmen are paid ordinarily on a base pay plus a commission on all sales on their routes, net sales, and in very many places this contractual requirement holds true whether or not they have anything to do with the delivery or sale of the product if it is on their route.

Now, I just have figures for one particular plant of ours, to give you an idea of the wage scales. The route managers—this is 126th Street in New York—in 1959 their average pay was $148 a week, $148.83. In 1965 it was $242.26. That is a route manager who supervises—in New York it is usually around 10 to 12 routes. The salesman in this same plant averaged $124.60 a week in 1959. In 1965 his pay was $164.86.

Now, I am not sure what the base pay is in there but I would guess it is around $95 or something in that area, and the rest would be commissions.

Mr. PURCELL. The commission portion of their pay is based, I assume, on the value of or the sales price at your level for the bread or bakery item; is that correct?

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. And then any cost increase that you have put into the process would directly reflect in their increased commission?

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. Is that correct?

Mr. O'CONNELL. Actually one way of looking at this is that the productivity of a salesman has probably not changed in about 60 years if you consider units of pounds, but every time there is a price adjustment of any sort or if he increases his sales on his own effort, too, which is the idea, but he gets a commission ranging at an extreme low of 6 percent but mostly 8 to 10 percent on all sales. So that——

Mr. PURCELL. On what kind of sales?

Mr. O'CONNELL. Of all net sales. If our prices goes up 1 cent, automatically we—10 percent of that or 8 percent of that goes to the salesman.

Mr. PURCELL. Well, in the modern bakery operation, is this route salesman truly a salesman or is he what we might generally term a deliveryman—the driver of the bread truck?

Mr. O'CONNELL. Well, more and more sales or authorizations are actually made at the higher level. I do not like the expression deliveryman, though. I think I will go as far as saying he is more of a serviceman than an actual salesman but giving service is an aspect of selling, and he can lose the sales very easily through bad service of the store.

Mr. PURCELL. He can lose the sales for you but there is really not much that he can or does do to increase the sales, is that correct?

Mr. O'CONNELL. Well, yes there is, in his display of the merchandise, consumer selling while he is in the store. We try to train them to do these things and we think they will increase sales.

Mr. PURCELL. Well, then, in the ordinary average supermarket is the amount of shelf space your product has assigned by the supermarket?

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. And they have—any given supermarket would have, I suppose, several brands of bread?

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. But they almost all have a private label brand of their own, is that correct?

Mr. O'CONNELL. That is right. Most of them do of any substance, and then sometimes there is a restricted number of additional advertised brands which are permitted shelf space.

Mr. PURCELL. But your company has an assigned quantity of shelf space?

Mr. O'CONNELL. Yes. Which may vary with stores.

Mr. PURCELL. And your routeman, whatever you call him, that drives the truck and takes the bread into this particular supermarket, has the job of keeping that shelf space attractively filled?

Mr. O'CONNELL. Yes. And I think there is more than a presumption that if he does a good job on it that satisfies the store operator, whether he be a manager of a chain or a store owner, that he may get increased space. He tries to. This is part of his job.

Mr. PURCELL. Does your experience show that they do get increased space, those that are competent?

Mr. O'CONNELL. Yes, sir; some do.

Mr. PURCELL. You have situations in your own company where one salesman's, if you want to call him that, shelf space is going up and another salesman's shelf space is remaining static or going down?

Mr. O'CONNELL. We do.

Mr. PURCELL. What is the practice in your company as to the number of times per day that these routemen call on any given store?

Mr. O'CONNELL. Well, it is not a company practice because in quite a few places it is restricted by union contracts. We call them callbacks, the number of times that a man can go back to a store. Some unions restrict this number. A great deal of it depends upon the load the man has, the number of stops he has. If he has a few large stops he will be able to go back to them. If he has 40 small stops he has quite a difficult time making callbacks.

Mr. PURCELL. Does your company make products under private label for retail establishments?

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. As I understand the operation, when you have a contract to furnish baked private label products, your job is complete when you deliver this product at the dock or backdoor or whatever you call it at the supermarket. Is this correct or does the supermarket truck come to your place and do their own hauling?

Mr. O'CONNELL. It takes all forms. In some cases they pick it up at our dock. In some cases we drop it at their warehouse. In some cases we have what we call a drop shipment to each store where it is just left off, and then in some few cases we have practically the complete service that they would have if it was our advertised brand.

Mr. PURCELL. And the price that you get for the bread I suppose depends on how much service you are rendering in addition to making——

Mr. O'CONNELL. Yes, sir.

Mr. PURCELL. How does the net profit to you, your company, compare, or the private label processes—I realize when you have got different ones it may be more difficult to answer than if you just had one type contract—how does your net profit of baking private label products compare with the net profit of baking your own name product?

Mr. O'CONNELL. Well, it is going to be less. Where we try to approach it with one of the factors in supplying the private label is the expectation of getting a substantial amount of display space for our advertised brands so that the price—private label in a vacuum, aside from this other activity, it will give you a figure which may not be the one that you will make your judgment on because you will also consider what your return is going to be on more space than you would have for your advertised brand. Or as in some cases, if you do not have the private label, maybe you will not be in the store at all.

Mr. PURCELL. I think I followed you. Now——

Mr. O'CONNELL. I am sorry if I was not clear.

Mr. PURCELL. Let me repeat. Under the practice in the industry, as I understand what you are saying, the amount of shelf space that you get for your name brand, is it some way in relationship to the amount of shelf space that the private-label bread carries which you are baking?

Mr. O'CONNELL. It is quite probable.

Mr. PURCELL. Now, what I am getting at is, and I realize it is real easy to think up ideas that do not work when you do not know the details about the business, but you realize I may put you on the spot or get in an argument with some labor man——

Mr. O'CONNELL. My last job was industrial relations dealing with unions, so we can go ahead.

Mr. PURCELL. Is it the feeling of the industry that if you have some kind of a contractual arrangement for the delivery of your bread other than your own delivery, would this not have about as much to do with amount of net profit that you get as any of the other ingredients that go into the baking of your product?

I am talking about just the labor on delivery, not the in-shop labor contracts that you have.

Mr. O'CONNELL. Well, the delivery costs are unquestionably a very high percentage of our total costs, depending upon what items are included, how much depreciation for trucks and other things to include, perhaps 28 to 30 percent. Obviously, if this was—if we were able to reduce this, it would have, I would like to think, a beneficial effect on our profits first, which are at a very low ebb.

I think there are a lot of factors connected with it where, for instance, if I may go back for a moment to something I mentioned before that was brought up by a member of the committee, the question of consignment selling. I was reminded by one of my competitors that there was a war food order No. 1 during the war under which you could not take back so-called stale, and it turned out that the grocers therefore sold both fresh and stale at the same price. We lost all control of it. It damaged our image, some more than others, because we had advertised brands that were being sold maybe 2 or 3 days old or beyond the code that we had on them.

This is something that a salesman is trained to take care of and make—and is required to pick up this product on call to keep the public aware of the fact that we are trying to give them a fresh product. There are other duties of a salesmen that would be lost if an entirely different distribution system was set up.

I think sometimes we get theatrical about it. I think Mr. Wolff—I do not believe you were here this morning—certainly showed a great deal of knowledge about some of the industry but I think he did confess he did not have a solution except he thought our distribution system was inordinately expensive. Well, it is but we do not know of an alternative. As he said, there was an economics distribution foundation set up by the industry and the Teamsters to try to seek out a solution to this. It did not or at least up to now it has not found a solution. And, of course, A. & P. has got a solution. They control the whole thing from manufacturing to the store without a salesman, with bulk deliveries, but there they are protecting their own brand. The other way we would lose the protection of our own brand.

Mr. Purcell. Now, within the area in which you operate and the companies for which you do private label baking, how do they handle their stale bread problem? The private label bread that you bake goes in under the auspices of the supermarket.

Mr. O'Connell. Yes.

Mr. Purcell. What happens to that bread as compared to what happens to your bread that you have to go get every day?

Mr. O'Connell. Well, sometimes those stores will cut the price of their own private label even below the price it is being sold at to get rid of it or they sell it as day old. It is not our branded merchandise, so that our brand does not necessarily suffer by this.

Mr. Purcell. I understand this. As far as you are concerned, do the supermarkets use their bread as leaders in order to get people in and leave you in a position of charging a higher price for really the same bread?

Mr. O'Connell. Well, I am in the area of an accusation now. Only the man selling it knows whether it is a loss leader or not.

Mr. Purcell. Well, I have been over this before and I realize you folks get kind of balky.

Are there conscientious efforts being made between management and labor to better manage this terrible labor problem? Mrs. May and I spent about 2 years on a very detailed study of bread along with every other food item. I can only speak for myself, but to me this is an area in which something can be done, but it is going to take a good attitude on the part of everyone and a very realistic attitude. Frankly I am convinced that unless some new approach is made in several areas of selling in the food industry, we are going to have segments of the industry get in unreversible disaster. But is there effort as far as you are concerned on what you would consider a conscientious basis between management and labor to just realize what the facts of life are and if they want a job and if you want to stay in business, there is going to have to be some realistic readjustment made somewhere, I think.

Now, is this going on or not?

Mr. O'Connell. Yes, sir. It certainly cries out for solution. I could not agree more. I think there are very practical problems on the union side which I am sure you will recognize and the fact that they have got to be reelected, and they have got to—perhaps this is part of the business going on now that has made me a member of the "National Standby Club" at the airports. They have got one union fear of another one taking over. The Teamsters I think would like to see a solution, the intelligent progressive looking ones, because they are seeing deterioration in their membership which is what they live on.

Certainly this industry, if it continues the way it is going, is due for some terrific attrition in a number of units and therefore loss of jobs. I think on the management side there is great concern and a desire to seek out a solution. I just do not think we are close to one yet but there is sincerity, to answer your question.

Mr. Purcell. Do you see any feasibility, and if there is any feasibility, is there any effort being made from an industry standpoint with bread, with all bakery products, of doing a better job of informing the public what a bargain they are getting?

Mr. O'Connell. Well, this was one of the primary objectives of the matter I referred to this morning, the Wheat and Wheat Foods Foundation, of the cooperative efforts of growers, millers, and bakers, which was intended, still is intended down the road, to have a massive campaign, some of the bakers like to say like the milk companies, but I think it should be their own but of the magnitude so that——

Mr. Purcell. I think you had all better say like the cigarette companies and beer companies, what you are referring to, because you are all doing a pretty mediocre job when you get right down to it.

Mr. O'Connell. Or hair tonic. Yes, I agree, and I do not think we have sold the nutritional values of our product. I do not think we have begun to do it.

Mr. Purcell. Do you feel that we in food, all of us, whether we are politicians, producers, processors, or retailers, that whenever some synthetic outfit comes along with a derogatory remark about eating bread—that it is going to make you fat and kill you if you eat bread—that we all kind of roll over and play dead hoping it will not happen again, whereas other segments of the general economy come back with alternate plans. Cigarette sales go up every time they put one of these "kill you" labels on them.

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Mr. O'CONNELL. I do think——

Mr. PURCELL. And I think that we who are in the food industry who have nothing but good things to sell put our heads in the sand. I am not accusing you any more than I am myself of not being aggressive, not being modern in our attitude or our approach, and someway, somehow, we all have to do a better job of dealing with the public. We would not be having these hearings—you would not be getting jumped on about raising the price of bread a little bit, if the public understood that they are getting the biggest bargain that any living human being ever got. I would like to insist that every segment of the industry give high priority to this approach because we are going to see a few of you bakers survive who will primarily be baking for other people and you will be more or less a service branch of the retailers.

I am not blaming the retailers either, because they are competing with each other. As an industry, we can sell the product if we will, I think, because beer and cigarettes and everything else that has gotten nothing but a sales slogan goes up while we fumble around and go down. And I would hope that we can all work together and hopefully accomplish something of that.

I will yield to anybody who wants to——

Mr. O'CONNELL. I would like to just say that I deeply appreciate what you have just said and it is a hundred percent right, Mr. Chairman. We roll over and play dead. We, as an industry, and you must remember it came up from individual owners, are scared to get publicity. When we get a summons from you to come down here, we wonder, you know, should we come? Should we make a written statement? This is a—it is just inherent in the industry and I agree heartily that it should be quite the opposite because we have something to be proud of and I think we are producing a very fine product at a very fair price, and it can be compared to anything else, but I do not know just what the start of this attitude was but we are publicity shy and when somebody from Cornell—hope nobody from Cornell is here—comes out and says that you will just die if you eat any more bread, we talk about it amongst ourselves or some of our associations but we do not just lash out at him, which we should.

Mr. PURCELL. Well, then, you do not take a sustained selling attitude in between. I think that you wait to get jumped on and then hope it will go away if you do not come back at it, but in between the jumping-on spells, you talk to each other.

I will quit at this time. Mr. Findley can go ahead.

Mr. FINDLEY. Thank you, Mr. Chairman. Do you preprice all of your products?

Mr. O'CONNELL. No, sir.

Mr. FINDLEY. How do you——

Mr. O'CONNELL. A great many of them.

Mr. FINDLEY. How do you decide which will be prepriced?

Mr. O'CONNELL. It is a custom in the local market, usually.

Mr. FINDLEY. On request of the customer, is it?

Mr. O'CONNELL. I would guess that is the way it started but once it starts, it just continues.

Mr. FINDLEY. How do you determine the markup in prepricing? Is it there again in response to what the customer establishes over a period of time as his desire?

Mr. O'CONNELL. Yes.

Mr. FINDLEY. There is no effort to fix a minimum margin of profit for the retailer?

Mr. O'CONNELL. The pricing is ordinarily at the markup which is customary in a particular market of, say, 20 percent, so that sometimes it results in some moving up and down. If a price goes a cent and a half and the retailer goes up two cents, the wholesaler a cent and a half and the retailer a cent, then his margin probably changes.

Mr. FINDLEY. But the retailer is in full control of the pricing?

Mr. O'CONNELL. Yes, sir.

Mr. FINDLEY. Can you say that your concern has been forced into any wasteful and unprofitable promotion projects by union agreement?

Mr. O'CONNELL. Promotional projects?

Mr. FINDLEY. Yes. Mr. Wolff intimated this morning that a lot of the promotional effort, this use of displays and other gimmicks to establish a trade name and promote the product, are forced upon the bakery by union regulations. I believe I am correctly interpreting what he said.

Mr. O'CONNELL. I could not quite understand his point there but I would say that the effort to get in promotional material is ours more than the union's. We would like to get more in. Sometimes we cannot get what we want. Quite frequently we cannot.

Mr. FINDLEY. Do you operate in the Detroit area at all?

Mr. O'CONNELL. Yes, sir.

Mr. FINDLEY. Have you had any difficulty with imported bread from Canada?

Mr. O'CONNELL. Very much so.

Mr. FINDLEY. Has this been aggravated since the certificate program was adopted?

Mr. O'CONNELL. I really do not know.

Mr. FINDLEY. Can you give us a comparison of the cost of flour across the border?

Mr. O'CONNELL. No. I do not know the cost of flour across the border. I do know that cheap bread is imported across the border which perhaps most certainly has something to do with the price situation that somebody mentioned, local variance from Detroit to some other city.

Mr. FINDLEY. Well, bakeries across the line of Canada——

Mr. O'CONNELL. This is not the only place in the country this occurs, by the way. It occurs in upstate New York and in the State of Washington.

Mr. FINDLEY. Yes. Canadian bakeries may well use only Canadian wheat, but, if they choose to buy American wheat, they can buy it at a price considerably below the price at which American bakeries can buy the very same wheat, bake it into bread, ship it duty free into the United States, is that not correct?

Mr. O'CONNELL. Yes. Well, I do not know the first part about the cost of flour. The rest of it is certainly correct and we do not like it.

Mr. FINDLEY. Well, they do not have to pay a processing tax up in Canada, so I understand. That is one of the disadvantages to which I pointed during the original debate on the bread tax issue, and I think it is a substantial item, especially in the past year when the market price has risen so substantially.

Mr. O'CONNELL. The problem has existed longer than that. It may be persisting because of that.

Mr. FINDLEY. Well, we have had an export subsidy paid on wheat in prior years which would enable Canadian bakeries to buy U.S. wheat cheaper than American bakeries can buy it.

Thank you. That is all.

Mr. PURCELL. Mr. O'Connell, every time my good friend, Paul Findley, brings up this certificate thing I try to get in the record the counterpart of it, so I hope you know the answers to my questions I am going to put to you.

The bread that any bakery is buying now, the wheat that any miller is buying now, and could buy between now and next June 1 approximately, would not be affected in any way by taking the certificate off today, would it, because this wheat is in being and the farmers would have already gotten their certificates if they knew where the post office was, and can you think of any way that the price of wheat would be affected between now—at least between now and next May 15 or June 1 by removing the certificate?

Mr. O'CONNELL. Well, Mr. Chairman, I have to answer that if we sell—we buy flour from a miller and what you are talking about occurs before that point, and I do not know the answer.

Mr. PURCELL. Well, you did not do too well on that one.

Mr. O'CONNELL. I am real sorry, because you have been very nice to me. I would like to say the right thing.

Mr. PURCELL. The way this certificate thing works, as the farmer takes his wheat, as he harvests his wheat, he gets a certificate on approximately 45 percent of his wheat because that on an average is the amount of wheat that we use domestically. Mr. Findley is not very strong for this certificate; in fact, he calls it a bread tax that I think is inaccurate and misleading.

Mr. FINDLEY. Flour tax, then.

Mr. O'CONNELL. Even we stopped doing that.

Mr. PURCELL. But you cannot change a program within harvest year, at least it would be very unfair to not let Mr. Redlin and his North Dakota farmers get their certificates when my Texas wheat farmers have already gotten theirs and applied them on their mortgage. All the wheat that can be used by any mill or any bakery between now and next June 1, at least, is in being. It may not be harvested right now but we know about what it will be.

If what I have said to you is correct about the way these certificates are handled, can you then imagine any way that the price of flour to you would be affected by removing these certificates?

Mr. O'CONNELL. Prior to June 1?

Mr. PURCELL. Yes, sir.

Mr. O'CONNELL. I cannot imagine it but I would be real delighted if somebody else could.

Mr. FINDLEY. Will the gentleman yield?

Mr. PURCELL. Yes. I will turn you back over to Mr. Findley.

Mr. FINDLEY. The chairman may have referred without naming it to the bill I have introduced to repeal the processing tax which is required of millers on the wheat that they mill for human use.

Now, my bill has nothing to do with the payments that are made to farmers, so it would not interrupt the payment program one bit nor have any adverse effect on farm income. It would do just one thing, and that is to relieve the millers of the necessity to pay the processing tax when they do the milling.

Now, this means, of course, that general revenue sources would cover the payments to farmers, but it would mean a lower cost operation for millers, and we have had testimony today indicating that this would probably result in about a 25-percent reduction in the wholesale price of flour, so I think you could be reasonably confident this price would result almost immediately once the need to pay the processing tax is removed.

Mr. O'CONNELL. I think I can answer for myself as a businessman. If I found out the miller's expenses had gone down 75 cents per hundredweight, I would ask where the hell was mine. I do not know whether that is the way it works but I would certainly do it.

Mr. PURCELL. When you said that to your miller friend, how much luck have you had?

Mr. O'CONNELL. Well, he has not been—I have not been able to prove that his costs went down like that.

Mr. PURCELL. All right. Mrs. May, do you have any questions?

Mrs. MAY. Mr. O'Connell——

Mr. O'CONNELL. I might just say it goes somewhere else.

Mrs. MAY. This morning Congressman Wolff discussed in his testimony and later colloquy the practice of discounting and said it was quite widespread and discriminatiory, or he felt it was a discriminatory practice, and that if he eliminated the practice this would accrue to the benefit of the wholesale bakers as well as to the consumer.

Would you agree that discounting is a widespread practice in your field and comment on the statement? I believe you were in the room this morning.

Mr. O'CONNELL. I would agree that discounting is a widespread practice. I would not agree that it is discriminatory. I do agree that if all discounts were eliminated, there would be more in the pot for either profits or price or whatever. It is a price factor obviously.

I could also agree that if in a particular market there is a general 5-percent discount, the discount was kept but the price was moved up enough that it would compensate for it, then it would have the same effect as the removal of the discount. It just happens that discounting in my limited knowledge perhaps of other industries, although I have spent some time in others, is a fairly widespread practice in lots of industries.

Mrs. MAY. Why is discounting carried on?

Mr. O'CONNELL. Because the buyer demands it. And we happen to have to deal with that buyer.

Mrs. MAY. In other words, this is the way he meets competition for space, outlet and other——

Mr. O'CONNELL. That is exactly——

Mrs. MAY (continuing). Acceptance by the retailer?

Mr. O'CONNELL. Exactly what it is, to meet competition, and if we have anybody from the Federal Trade Commission here, I would like to emphasize that that is what it is. And we support and go to a great deal of expense to keep documents proving that that is exactly what our discounts are, and we do not like them but we happen to need to keep them to stay in business and stay exposed to the public.

Mrs. MAY. Mr. O'Connell, you are in the Chicago metropolitan area, are you not?

Mr. O'CONNELL. Our headquarters is. We do not operate a bread and cake bakery there.

Mrs. MAY. You do not operate there? Are you familiar with the bread situation there?

Mr. O'CONNELL. No, I am not.

Mrs. MAY. I had a question pending on a report from there and what has happened to the bread price in there, but I will save it for a later witness.

Mr. O'CONNELL. I am sorry I am not familiar, and I might add neither is my wife. I asked her what she paid for bread and she did not know. And I find among my friends they say this is fairly common. Excuse me for the——

Mrs. MAY. It is being brought to her attention very strongly. After a few more press headlines, she will know.

Mr. O'CONNELL. She has been reading the papers lately and I think will become conscious of it.

Mrs. MAY. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Redlin?

Mr. REDLIN. Just a couple of questions in regard to this private-brand bread. Would you say the production of your bakery is more and more going into private brands and away from your own brands in percentage of volume?

Mr. O'CONNELL. A little more, Mr. Redlin. It is not a large percentage of our total.

Mr. REDLIN. It is not a large percentage of your total?

Mr. O'CONNELL. No, sir.

Mr. REDLIN. But the private-brand baking is increasing as related to your total volume?

Mr. O'CONNELL. A little.

Mr. REDLIN. Is it a fact that the private brands almost invariably sell for less money on the shelf than your own brand or is it not?

Mr. O'CONNELL. Always.

Mr. REDLIN. Always they do. One more question. Do you operate in Detroit?

Mr. O'CONNELL. Yes, sir. That is——

Mr. REDLIN. Would you say your division in Detroit is paying its own way or is it being subsidized from some other division in order to meet this competition?

Mr. O'CONNELL. You know I have competitors sitting here, Mr. Redlin.

Mr. REDLIN. You may not wish to answer that question, sir. That is your privilege.

Mr. O'CONNELL. I will answer "Yes."

Mr. REDLIN. Mr. Chairman, while I have the floor I must say to my good friend from Illinois I do not share his optimism for the general revenue sources doing the job that my wheat farmers need to have done to be sure they have their 100-percent parity and I appreciate that you toss off that general revenue sources will take up the slack of the certificate which you would eliminate. But I think the job will be difficult to find $375 million to add to the general budget of the U.S. Government.

Mr. FINDLEY. Would you yield to me at that point? That is, of course, what would automatically happen. The cost of the payments to the farmers would, as now, come out of Commodity Credit Corporation resources. The Commodity Credit losses would not be replenished by the processing tax which is now in effect. So it would mean that the realized losses of the CCC would be greater than otherwise at the end of the year so they would ask for more appropriated money to restore capital impairment.

Mr. PURCELL. Is that all?

Mr. REDLIN. Thank you.

Mr. PURCELL. Mr. O'Connell, one final question. Can you give us for your company what has been the increase in the price of bread, either sections or overall, from between July 1, 1965, and July 1, 1966, in your company?

Mr. O'CONNELL. The average increase, including all increases up to now and announced to the trade that are to be effective, is slightly over a cent and a quarter—I am talking per pound, compared to the size loaf, between a cent and quarter and a cent and a half.

Mr. PURCELL. Is that the retail price or your price to the retailer?

Mr. O'CONNELL. Our price.

Mr. PURCELL. That is the wholesale price to the retailer?

Mr. O'CONNELL. Yes.

Mr. PURCELL. Between July 1, 1965, and July 1, 1966?

Mr. O'CONELL. Yes, sir.

Mr. PURCELL. All right. Thank you very much. Any other questions? Thank you very much, sir.

Mr. O'CONNELL. I appreciate your kindness. Thank you.

Mr. PURCELL. We will call on Continental Baking, Mr. Roy Anderson and Mr. R. Newton Laughlin.

STATEMENT OF R. N. LAUGHLIN, PRESIDENT, CONTINENTAL BAKING CO.; ACCOMPANIED BY ROY ANDERSON

Mr. LAUGHLIN. Mr. Chairman, I am R. N. Laughlin, president of the Continental Baking Co., and my associate, Roy Anderson, is the vice president of the Continental Baking Co.

Before starting I want to express my appreciation for this afternoon session because I was quite anxious to testify and I was afraid it would be impossible if it were carried over until tomorrow.

I certainly welcome the opportunity of appearing before your subcommittee to present the reasons why it is necessary for Continental to raise bread prices in many markets.

At the outset, we would like to make it clear that we have no quarrel with the farmer. The Department of Agriculture has stated that the farmer is underpaid in terms of his efforts and investment. We have no reason to doubt this. We do know, however, that recently we had a sharp increase in the price of flour which is the major ingredient in bread.

Through the years, we have attempted to offset steadily increasing costs by modernizing our plant equipment, automating our production lines, and effecting other production and sales efficiencies. These attempts to offset increased costs through operational efficiencies and increased sales have not proven entirely successful. In fact, over the past 10 years, there has been a steady decline in Continental's percentage of profit to sales. In the year 1956, the company realized 2.65-percent profit on its total sales. By 1965, this percentage had dropped to 1.90 percent. Similarly, there has been a decline in the company's return on invested capital.

This discouraging profit picture is being experienced by the industry as a whole. Moody's Industrial Manual reports that for the past 10-year period, four large baking companies averaged a decline in percentage of profit to sales from 2.74 percent in 1956 to 1.12 percent in 1965. During this same period of time, Fortune magazine in their July 15, 1966, issue reported that the median return on sales for the Nation's 500 largest industrial firms rose from 5.4 percent in 1955 to 5.5 percent in 1965. The bread industry figures for return on invested capital also present a discouraging picture. The "Report of the Federal Trade Commission on Rates of Return for Identical Companies in Selected Manufacturing Industries 1955–64" shows a decline of return on investment in the bread industry from 11.7 percent in 1955 to 5.8 percent in 1964. This 5.8 percent was the lowest return shown for the 23 selected industries.

These adverse trends in profits and return on investments are further illustrated by the fact that many baking companies have closed plants or gone out of business in recent years. Several of the larger companies in the industry, including Continental, have found it necessary to close plants in order to economize.

Beginning in 1965 to the present, Continental has experienced substantial cost increases in practically every facet of its operations. We anticipate that this trend will continue. Not only have our ingredient costs, including flour, increased substantially but there have been very large increases in the costs of labor, packaging materials, social security, machinery and equipment, vehicular equipment, and construction.

To illustrate, we estimate that our additional bread flour cost, based on the second half of 1966 over the first half of 1966, will be $8,500,000 annually, milk an additional $2 million, sugar an additional $300,000 and other ingredients $200,000 annually. During the year 1966, our costs for packaging materials will have increased over $1 million, and our social security payments will have increased over $2,300,000. Over the past 10 years, costs for vehicular equipment have increased 24 percent exclusive of any increase in the cost of fuel and other operational expenses. Production equipment costs over the same period have increased 28 percent, and construction costs have increased approximately 30 percent. Costs of services, such as interest on borrowed money and other normal business expenses are steadily increasing.

We also estimate that our labor costs will increase over $5,500,000, even without any provision for increasing overtime caused by labor shortages. Recently, in our Natick, Mass., bakery, the largest one operated by Continental Baking Co., we were met with demands for very large wage increases, so large that the company had no recourse but to take a very costly strike. This strike lasted 8½ weeks and in order to settle it, the company was forced to pay increases above the Presidential guidelines although considerably below the union's original demands. The strike alone cost the company over $1 million. The importance of these labor costs, exclusive of executive and administrative wages and salaries, can readily be seen when you realize that 35 percent of our sales dollar is devoted to labor costs alone.

These sharply increased costs cannot be offset by further production and sales efficiencies. We are always reluctant to increase bread prices due to many factors among which are the declining per capital consumption of bread and the fact that bread is more important in the diet of low-income families. Unless our prices increase at the present time, however, these additional costs would virtually wipe out our profits.

In deciding to increase our bread prices recently, we attempted to cover only those costs which were immediately foreseeable. We are hopeful that any future cost increases will be of such lesser magnitude that they may either be absorbed into our pricing schedules or be counteracted by our constantly improving operating efficiencies.

Keep in mind, gentlemen, that even with these increased prices bread continues to be one of the best values for the consumer dollar.

Mr. PURCELL. Thank you very much.

Mr. Redlin, do you have questions?

Mr. REDLIN. Mr. Laughlin, I appreciate your closing statement wherein you indicate that bread is still one of the best values for the consumer's dollar. I had hoped that you and your compatriots would have added that to the statement when you mentioned the increase in flour costs causing things to go up because I think we need to be reminded of this quite readily and often.

That is all. Thank you very much.

Mr. PURCELL. Mr. Findley?

Mr. FINDLEY. Mr. Laughlin, you heard reference made to my proposal that the processing tax which I call the bread tax, and which has been interpreted as presenting about 25 percent of today's price of flour, be eliminated. Do you have a position on this? Do you recommend enactment of this type bill?

Mr. LAUGHLIN. Well, as I understand it, your recommendation is that rather than the tax be passed on to the taxpayers, that the farmer receive this mony from a general fund.

Mr. FINDLEY. Right.

Mr. LAUGHLIN. Now, if this were true, if this happened, our flour costs on an annual basis would drop about $17 million, so you ask me am I in favor of it, and obviously if this—coming back to a question that was asked I think earlier, had this, say, gone into effect as of the 1st of July, it would not have been necessary for us to have increased bread prices as we have done in the last few weeks.

Now, that does not mean that at some stage of the game increased labor costs, increased packaging costs, all the other costs we have, social security, and so forth, wouldn't catch up with us, but certainly had our flour prices been down by this amount, we would have continued to operate under the present pricing schedule in I would say practically every market. There might be some exception to it where it is beginning to catch up with us.

Mr. FINDLEY. So dropping the bread tax would have enabled you to maintain a constant price level during the past few weeks, is that correct?

Mr. LAUGHLIN. Yes.

Mr. FINDLEY. Or last few months? Or how do you express it?

Mr. LAUGHLIN. You see, what occurred, we were confronted, as you know, with a rather dramatic increase in flour prices which hit us all of a sudden. Now, this flour price within itself is not the reason that we had to increase prices because everything else had been going up, but this was just that straw that broke the camel's back, so to speak, because when labor goes up $5 million or more, you just can't chin those costs. And unfortunately labor demands are getting tougher. I mean, each year we are settling our contracts but it is costing us more per hour than it did the last time we settled it.

We resist raising prices and we have areas—we have had occasions when we have gone maybe 5 years without a bread price adjustment because, even though we have had increases, our efficiency has gone up, our selling costs have dropped some because of added volume on our routes, and we have been able to chin it.

Obviously the bakers are not getting rich when you make less than 2 percent on sales, but we have tried to stay with it.

Mr. REDLIN. Will the gentleman yield just a second? Did you enter in the record what the rise in prices of bread had been in your company channels, or if you wish to put it in the record, in the past 6 months? Did you mention that earlier? You are relating now that this cost related to the processing fee would have prevented you from having to rise. With that in the record I wonder if you would indicate what did it rise.

Mr. LAUGHLIN. Yes; I did indicate that. I will refer back to my statement. We estimate that our additional bread flour cost—this is for the second half of the year—will increase on an annual basis $8,500,000.

Mr. FINDLEY. Could I ask you: Do you market a pound loaf of bread?

Mr. LAUGHLIN. In some places we do. It varies by markets.

Mr. FINDLEY. Can you tell us what the price of that loaf of bread was last July 1 compared with this July 1?

Mr. LAUGHLIN. We operate a great many bakeries. Frankly, the price of bread is established at the bakery level and I don't know what the price of bread is from one city to the other.

Mr. FINDLEY. Can you give us a typical example in any single city?

Mr. LAUGHLIN. Well, it is a little hard, and I am not trying to avoid your question, but let me show you what happens in making a loaf of bread.

A pound loaf of bread, when it is scaled before baking, is not scaled 16 ounces. It may be scaled 18½ ounces, may be scaled 19 ounces, 19¼. Some of it depends upon the dryness of the country, some of it on the altitude, and if we are going to come out with a loaf of bread that bakes out to a pound, we have a wide variation of ounces for gaining weight.

Mr. FINDLEY. Could you illustrate a price in a loaf of bread somewhere in the 1-pound range, the price last July 1 and this July 1? Mr. Schnittker of the Department of Agriculture has indicated that the price change amounted to about 1 cent a loaf over this 12-month span. I believe that is what he——

Mr. LAUGHLIN. You mean how much prices have gone up?

Mr. FINDLEY. Yes; per loaf of bread.

Mr. LAUGHLIN. Well, I am guessing when I say—I assume if we dug into it, it might be an average figure, but I honestly don't know because we don't look at averages. When we reach the stage of having to adjust prices in a bakery, the bakery manager looks at his overall costs and he finally reaches the stage that he just can't go on any longer with the present cost and then he recommends an adjustment in bread prices.

Mr. FINDLEY. Maybe you don't have the figures available, but I am sure you did price a loaf of bread at a certain level last July 1 and——

Mr. LAUGHLIN. Oh, yes.

Mr. FINDLEY (continuing). And similarly for this July 1.

Mr. LAUGHLIN. We would have that information based on 100 pounds.

Mr. FINDLEY. But you don't have——

Mr. LAUGHLIN. But for me to carry this in my head, I just don't know.

Mr. FINDLEY. Thank you.

Mr. PURCELL. Mrs May?

Mrs. MAY. Are you in the Chicago market?

Mr. LAUGHLIN. Yes.

Mrs. MAY. I have recently asked for some information from that area and I would stress that this information I asked for confines itself strictly within the Chicago retail-wholesale market, competitive market there on bread. Those figures reached me this week on what has been happening in the last few months there and I would like you to comment.

Now, this is from only one big retailer. He gave a report on both his retail and the wholesale market, what has been going on, because this company is one of the big, dominant ones in that area. I would gather it reflects pretty much what has happened within that area to bread.

Now, in their report to me, they said that since December 14, 1965, there have been two cost and retail price changes in commercial bread products in the Chicago metropolitan market. On December 14, 1965, the retail price for 20-ounce white bread increased from 27 to 29 cents; 1-pound dark breads increased from 26 to 28 cents; and on January 24, this was this year, their sandwich buns, which I believe you call your eight-count sandwich buns, increased from 29 to 31 cents. Then, on July 18, this last month, retails for the same breads went from 29 to 31 cents. That is on the 20-ounce white bread. From 28 to 30 cents and from 31 to 33 cents, respectively, another basically 2-cent rise. And in their report they said to me, in both instances this cost change that precipitated the retail price change was a cent and one-half per loaf. This might be in partial answer to your question, Congressman Findley, in one market only. In other words, a total increase in two equal changes of 3 cents per loaf in which—that was at the wholesale level—in which the retailer reflected a 4-cent-per-loaf increase, with resulting gross margins, however, remaining constant. In other words, it required a 4-cent increase at retail level to hold even the gross margin percent level based on that 3-cent increase at cost.

I would like to stop at this point and ask you does that sound like what has been reflected pretty much throughout the Chicago market in your own operation there?

Mr. LAUGHLIN. Well, Congresswoman May, to try and remember the price moves in Chicago, I don't know; but, taking part of it, if the wholesaler were to raise the price of bread a cent and a half, the retailer would get 2 cents. If the wholesaler raised the price of bread 2 cents, the retailer might well take 3 cents. So in order to protect the retail price, there may be times when we might need a 2-cent raise but we will only take a cent and a half to try and keep the retail price down. And as I say, we have got quite a few bakeries around the country and I just can't retain it and it doesn't always cross my desk.

Mrs. MAY. Generally you couldn't say whether you feel that in this market, as I have explained it, for this is what has happened to this one company, generally that this gross margin of profit has retained this relative tie between the increase in wholesale or retail? You think it has stayed at a fairly constant level? Has it been reflected unduly at the retail level?

Mr. LAUGHLIN. I don't—the retailers—now, this again is trying to strike an average, trying to maintain about a 20-percent gross profit on bread, and they are having mounting costs, and let us say their margin drops to 17 or 18 percent. As you know, the supermarkets and chains are operating on around a one- to one-and-a-half-percent profit. If they have a drop of 2 percent in profit, they would begin to get in trouble. So they fight very hard not to lose on their margin of profit.

Mrs. MAY. I might say, and this is just for the record, Mr. Chairman, in this same report to me from this one dominant company in the Chicago metropolitan area, their information was, as retailers, that the cost increases at the wholesale level were brought about by two factors. The first change—that was the earlier cost rise in this market—was brought about by the settlement of a labor contract that became effective last November in 1965 in which there were hourly wage increases of 12 cents per hour for bakery workers and 13 cents per hour for commissioned drivers. Then the second change was precipitated primarily by the ingredient and packaging cost increase in commercial bakeries that have occurred since May of this year and they said that their experience tended to confirm this in reflecting a 9-percent increase in ingredients and wrapping.

Now, I don't know how much of that was—that 9-percent increase—was ingredients, how much in wrapping. We know where the ingredient rise came from, in flour, sugar, and milk. Now, what has caused the rise in the packaging costs here, and wrapping?

Mr. LAUGHLIN. Well, I guess you would have to go back to the people who make all this packaging. Part of it is their cost. Part of it has been a change in the actual packaging of bread. In some areas we have gone from a, what you might call a conventionally sealed loaf to a bag which costs a little more, but the public, when the bread was put out in the bag, in a good many markets—and it is not true in all markets—the public liked the bag better than the former conventional type.

Mrs. May. The sealed wrapper you mean. They prefer the bag.

Mr. Laughlin. It is easier with a bag with a tie on it, it is easier to untie it, take a couple of slices out and tie it back up.

Mrs. May. Rather than wrapping.

Mr. Laughlin. That was part of the cost. I know when we went into it, in many markets we even put it out in a bag at a higher price than the conventional seal. So the housewife, when she wanted to pay a penny more, could get it in a bag. Well, we found she was willing to pay a penny more. But again competition moves into the thing. And somebody decides we are not going to raise the price a penny, and they cut back. So in some cases we were caught in a squeeze there.

Mrs. May. But can you think of any other things that went into changes that raised the packaging and processing costs?

Mr. Laughlin. Well, packaging just generally has gone up. Even without the bag package, costs are higher. The cost of paper has gone up, I suppose the cost of ink that goes into it. They had increased labor costs. I mean, you know, across-the-board labor costs have been mounting pretty fast and they have to incorporate their added costs in the cost of the wrapper. As the money market has gone up it is costing all of us. We have to pay higher interest on money.

Mrs. May. Generally, then, you would say that perhaps in your own business, as in this particular market, the Chicago market, that it would have reflected as you have said the increased cost of labor as one factor and the other big factor, the cost of ingredients, packaging, and processing, increased processing.

Mr. Laughlin. I really can't think of anything on the cost of bread hardly that isn't up. And there are a lot of small intangibles. As I mentioned a little while ago, one of the problems confronting us now, it wasn't quite so true then, but the difficulty of getting manpower means that we are having more overtime. This doesn't show up in our average—your union contract might be, but we are having to work people longer and they are getting paid at a higher rate.

Mrs. May. Do you know of any case where the increased costs, provided they are necessary at the wholesale level to the retailer, have not been reflected at the retail level by as much of an increase to keep their gross margin of profit in balance by, let us say, if it is a 3-cent rise at wholesale, then comes a 4-cent rise at the retail level? Have there been any places where this has not occurred?

Mr. Laughlin. Yes, there are. There are places where the merchant will take a lower margin of profit.

Mrs. May. But it is more apt to be the other way, of course.

Mr. Laughlin. Well, I am sure he would rather do it the other way but sometime competitive conditions force him into it.

Mrs. May. And, of course, there is a mix here of other food products. If they didn't take the increase on bread they might pick it up elsewhere in another commodity.

Mr. Laughlin. Yes.

Mr. May. Thank you. That is all, Mr. Chairman.

Mr. Purcell. Mr. Laughlin, in connection with some other questions that Mr. Findley was asking you, I have a chart. I don't have another copy of it. You can look at the same one I am. Can you see this from where you are?

Mr. Laughlin. Sorry, no.

Mr. Purcell. I think the chart that Mr. Findley is showing you is based, I think on the same figures, just glancing at it. Does it show—take the 1947–49 average as 100, and then it shows the price of bread and the price of wheat to the farmer?

Mr. Laughlin. Yes.

Mr. Purcell. You can see that except for the last 6 months period, that the price of wheat has generally gone down but the price of bread has not; it has specifically gone up.

The price of wheat has varied from a high, as this chart is begun in 1947–49, the average, it shows wheat in about 1959 getting down to about 82 percent of the 1947–49 average.

Would you please explain how you could be as sure as you appear to be that if the price of wheat were reduced by the price of the certificate that the price of bread—presumably you would have sold your bread just as cheap as the flour people sold their flour based on the historical behavior of the baking industry and milling industry—can you reconcile your statement of cheaper bread if we had no wheat certificate with the facts of life whereas bread has gone up ever since 1947, and certainly the price of wheat was as low as apparently 82 cents back in the fifties?

Mr. Laughlin. Well, I think I can explain this. To start with, when you use the 1947–49 period, you take a rather high trend as far as the price of wheat is concerned. This is the period of time when the bakers were using this long extraction flour and a great deal of flour was being shipped abroad. The price of wheat went down during this period of time.

Now, we at no time have tried to contend that we are not like the miller, that, let us say, 85 percent of costs of a loaf of bread are in flour. We don't say that at all. We have had all these other costs which I have mentioned.

Now, using a theoretical base, as I told you, as analyze all costs before we make any adjustment in the price of bread. Now, if suddenly the cost of flour were to drop $17 million, as of the 1st of July, we wouldn't need to increase the price of bread at that time. That doesn't say at a later date as other costs keep mounting we might not have to. I can't predict when that would be. But the thing that climaxed this right now, as I mentioned in my prepared statement, flour jumped on an average weekly basis, breaking it down to that, $170,000 a week. No; $163,000 a week is what we had an increase in flour almost from 1 week to the next.

Now, we don't make enough money to chin that sort of an increase. This would put us in the red.

In this same period of time, this wasn't quite this dramatic, but milk costs are up $38,000 a week and these two items alone, we have had a recordbreaking increase of $200,000 a week.

Now, we just couldn't chin that at this time. Had we had this offset, and I recognize that this is a theoretical case because I just don't think this is going to happen overnight, but had it happened right at this date, we would have had enough savings that we wouldn't have had to increase the price of bread at this time.

Mr. PURCELL. Whatever your interpretation of these figures is, they start out—the figures show that that chart is constituted from—that in 1947 wheat was worth $1.10 a bushel. It certainly got lower than that, and it is reflected in that lowest hump in the chart beginning along in the late fifties, going into the early sixties.

I notice a line of bread prices certainly continued about its same degree upward, didn't it, or the same degree of increase?

Mr. LAUGHLIN. Yes; but this chart doesn't show what other costs went into a loaf of bread.

Mr. PURCELL. I am not arguing about the other costs. You said, I guess you said you wouldn't have increased your bread costs if you hadn't had to pay for the certificates.

Mr. LAUGHLIN. Wait a minute, Mr. Chairman.

Mr. PURCELL. I don't see any time that bread has ever decreased since they started making this chart, and certainly wheat got down to 82 cents a bushel.

Mr. LAUGHLIN. I think the question that Congressman Findley put to me, if as of the first of July this had suddenly gone out of the picture, and interpret it as meaning that our flour then dropped $1.70 a hundred, now, if flour prices had dropped on a specific date that much, that would have covered the other increased cost we have had.

Now, I didn't say this would last forever because we have new contracts practically every month in different parts of the country. But this one thing, just this one impact on top of all our other costs was so dramatic, this is the thing that precipitated it. But we have no quarrel with the farmer. We think he is entitled to make a fair profit. We hope he does make a fair profit because if he doesn't, he is going to be less interested in growing the type of wheat that we need to make a good loaf of bread. So that frankly we are just as happy to see him get a good price, but we think that you need to understand that as these prices go up, we don't have any magic wand that permits us to keep on operating, and when you are on a narrow margin-of-profit basis as we are, we just don't have any choice but to make these adjustments.

Mr. PURCELL. I think, Mr. Laughlin, the other members of this committee are as interested in and as understanding of your problem as anybody you can find in the United States. I think the problem is as I went over it a while ago with Mr. O'Connell. Some way neither you nor we have gotten the public to understand this. I am taking this benevolent attitude toward you as you are toward the farmer. I think I understand this situation but I hate the record to go out of here that it looks as if some magic wand could be used, that the price of bread would go down, because it just doesn't show that anything has made the price of bread go down since right after the war.

The farmer is getting for the first time in recent history about 100 percent of parity on the part of the wheat that he grows for the bread you bake. I don't know what parity is for you. I don't think you are making—I take it that you have no argument at all against the farmer getting paid what parity is and that is just the average of what people in other kinds of businesses with like investment and like time spent would get in return for their efforts.

Now, do you feel that this is unfair toward the farmer?

Mr. LAUGHLIN. No. I think the farmer is entitled to a good price. I do feel this, that the baking industry is being singled out in this wheat certificate. I think that the 75 cents should come out of the general fund rather than out of the bakers' pockets because by doing so, we are doing just what we have done. We are passing it on to the consumer.

Mr. PURCELL. Well, is there anything unfair about that?

Mr. LAUGHLIN. Well, we are trying to keep the price of bread down just as low as we can.

Mr. PURCELL. I didn't ask you that. I said didn't you think it was fair for the consumer to pay what the costs to grow a loaf of bread are?

Mr. LAUGHLIN. I don't think it is anything unfair but when you listen to what we have listened to in the last week or so, you would almost think there is.

Mr. PURCELL. Where did you hear that?

Mr. LAUGHLIN. In the newspapers.

Mr. PURCELL. You didn't hear it in this room.

Mr. LAUGHLIN. Oh, no, no. I didn't hear it in this room but, like you, I read the newspapers.

Mr. PURCELL. You, then, like my good friend, Paul Findley, would rather have Uncle Sam picking up the tab for the American public eating one of the basic foods than to have them paying for this basic food just like they do whatever else they are buying.

Mr. LAUGHLIN. By doing that we can keep the price of bread down lower and the bread is competing for its space in the human stomach.

Mr. PURCELL. What moral virtue is there to keeping the price of bread low if it is going to make it unusually hard on the producer of that bread to keep it low?

Mr. LAUGHLIN. Well, I am saying the farmer still gets his money. I am not arguing with you on the price that the farmer gets.

Mr. PURCELL. You would just rather somebody else pay for it than you even though you have got as much right to get it out of the man you sell it to as any other type of processing industry has to get the price that they are required to get for their product out of the consumer public.

Mr. LAUGHLIN. Well, actually we are, I think, one of the few industries in which this processing tax is being passed back directly to the baker, to the manufacturer.

Mr. PURCELL. Call it whatever you want to, you are just one of every industry that has to pass on to those who buy from them all the costs that come to him, is that not true?

Mr. LAUGHLIN. Well, that is what we are doing: passing it on.

Mr. PURCELL. Isn't that what you should do?

Mr. LAUGHLIN. That is what we have to do.

Mr. PURCELL. There is nothing un-American about selling for a profit and paying for what you have bought, is there?

Mr. LAUGHLIN. No. If we began to get so high we price ourselves out of the market, this again gets us in trouble.

Mr. PURCELL. Do you not agree with the discussion I had earlier with Mr. O'Connell, that really one of the basic problems is the failure of the food industry to have enough understanding with the public about any necessary price increases they pay for bread, and I put the emphasis on "necessary," just like they do everything else they buy without bellyaching about it? Don't you agree that, in such a basic item as bread, the consumer has a right to know whether the increased retail price is justified by the demands of the economy or whether there is profiteering by any segment in the chain of production of bread? I think that the bakers, as well as others who contribute to the cost of a loaf of bread, have a responsibility to divulge enough information about their business to the public to let the consumer know if the price he is paying is fair or unfair and whether he should protest or accept the increase as part of the cost of an expanding economy and increased income. Isn't that where you fall short?

Mr. LAUGHLIN. Yes. I think we fall short there. I think that—I think the baking industry is doing a better job of educating the public to the value of bread and I cite this as a specific instance. We are getting more and more articles in prominent magazines by nutritionists that bread should be included in a reducing diet.

Now, a great deal of this is as a result of the activity of the American Institute of Baking which is the research side of the baking industry. And they have done a fine job. They haven't done as good as they could but we are making progress in that direction. We are getting more and more support.

You are seeing less of the crackpots coming out saying, "The whiter the bread, the quicker you are dead," and so forth. We are having less of that.

We are getting doctors on our side. You don't reverse the thoughts of people, because there was a time when somebody was overweight they said cut out bread and potatoes. There is a better nutritional understanding taking place and the baking industry can take credit for a large part of this. We have done this.

Mr. PURCELL. Do you not agree that this approach is the modern, scientific, proper approach that any segment of our economy ought to be taking?

Mr. LAUGHLIN. I agree, and another thing that we are doing, which Mr. O'Connell mentioned, was the Wheat and Wheat Foods Foundation which again we hope to, through this medium, further do the work the Institute of Baking is doing. I don't think we have spent enough money on a promotional campaign that we should have, but with as many bakers as we have, there has been quite an attitude of let the other fellow pay for it, and I have said the major baking companies have carried the load in promoting all these things but we just can't carry the full load. We have to sell more people in the industry on the importance of doing this very thing because one important cost with us is our selling cost and if we can have a route truck, instead of delivering maybe $1,000 or $1,200, $1,500 worth of merchandise a week, deliver $3,000 a week, our percent selling cost goes down and, as a result of doing that, we don't have to raise the price of bread.

We have got many areas where, up until quite recently, we hadn't raised the price of bread in 5 years, simply because of some of these both inside efficiencies and outside efficiencies which we put into effect.

Mr. PURCELL. Has your sale of bread dropped off since you raised the price?

Mr. LAUGHLIN. It is too early to tell. Some places we have just raised this week, because this has sort of been tied in as the higher flour prices came in. We have only actually been up about 2 weeks. And you don't get a picture that fast.

Mr. PURCELL. Well, you have got some general idea. You don't wait 2 weeks to see whether——

Mr. LAUGHLIN. From what we can tell so far it hasn't dropped off but I would never make a statement based on a 1-week record because it could either be good or bad, based on a lot of conditions other than the pricing.

Mr. PURCELL. Can you point at a time in history where the price of bread caused a reduction in the selling of bread?

Mr. LAUGHLIN. Oh, yes.

Mr. PURCELL. When?

Mr. LAUGHLIN. Well, it is not at all unusual when we raise the price of bread to have it drop off.

Mr. PURCELL. Well, tell me when.

Mr. LAUGHLIN. We eventually get it back. I can't tell you the last time we raised the price of bread any place, but it is not unusual. We generally get it back. Not always.

Mr. PURCELL. But you don't know where or when?

Mr. LAUGHLIN. No. I don't recall the exact markets.

Mr. PURCELL. All right.

Mr. FINDLEY. Mr. Chairman—Mr. Laughlin, do you have to pay a processing tax on corn that you use in your milling process?

Mr. LAUGHLIN. In our what?

Mr. FINDLEY. Do you use corn at all?

Mr. LAUGHLIN. No, we don't use corn.

Mr. FINDLEY. Are you aware of any processing tax that is imposed on millers of corn?

Mr. LAUGHLIN. I am not aware of that.

Mr. FINDLEY. There is none, and yet we have a corn program that costs almost $2 billion a year and none of it is financed with a processing tax.

Are you aware of any processing tax on rice?

Mr. LAUGHLIN. I am not aware of any, but I don't know.

Mr. FINDLEY. There is none. As a matter of fact, last year the administration sought to enact one and it was rejected overwhelmingly by this very committee, the same committee that reported out the processing tax on wheat.

Are you aware of any processing tax on cotton to finance the cost of the billion-dollar payment program to the producers of cotton?

Mr. LAUGHLIN. I am not aware of any.

Mr. FINDLEY. There isn't any. And yet we have a program under which almost a billion dollars a year is paid out to cotton farmers and the theory is to enable the users of cotton to buy cotton at the same price that foreign users of cotton can buy it. Is there anything fair about that when you, a user of American wheat, have to pay not the same price as abroad but a higher price than the same American wheat can be purchased abroad? There certainly isn't anything fair about that, is there?

I don't know whether you mill chicken feed or hog feed, but if you did, you wouldn't have to pay a processing tax on the wheat used for such purposes, and yet the very same wheat processed for baby food would have to carry the equivalent of a 25-percent tax. So I think, indeed, there are some things that aren't really too fair about this whole system.

I don't know whether that is a question or not, Mr. Chairman.

Mr. PURCELL. Well, I will say this. I think Mr. Laughlin has caught on that he won't get rid of me or you, either one, by answering. He has caught on to the point of just nodding, and getting out of it that way.

Do you have any questions, Mrs. May?

Mrs. MAY. No.

Mr. PURCELL. Mr. Laughlin, thank you very much. Is there anything else you would like to say?

Mr. LAUGHLIN. No. I appreciate the opportunity of coming down here and presenting some of our problems so that you, perhaps, can beter understanding the baking industry and what we are attempting to do.

I think that the wholesale bakers have really done quite a fabulous job and I think we are trying just as hard to pull down our pricing as anybody else. We are very conscious of the importance that bread plays in the human diet and we are trying to do a job that will make it available to the masses at a fair price.

I hope that we have been able to pass this information on to you and your committee.

Mr. PURCELL. Thank you, sir. Inasmuch as I have the gavel and maybe can get by with making a closing comment, I will say again I think the members of this committee understand your problem. Our purpose here is as much to throw the spotlight of truth on what it costs to make a food product as compared to any other product and let the American public hopefully understand better. Speaking personally, and I can only speak for myself, if I could encourage you to do anything, it would be to continue your research for better selling. We do not intend to discourage you from raising your price if your costs are increasing. I think the American public is willing to pay a reasonable and necessary price—at least they do on everything else—when they understand it. It seems to me they would be just as willing to pay for food as anything else.

Mr. LAUGHLIN. Thank you, sir.

Mr. PURCELL. We will call Ward Foods, Inc.

We have a statement for the record there.

(The material referred to follows:)

STATEMENT OF RUSSELL J. HUG, EXECUTIVE VICE PRESIDENT OF WARD FOODS, INC.

Mr. Chairman and Members of the Subcommittee, my name is Russell J. Hug and I am Executive Vice President of Ward Foods, Inc. With the Chairman's permission I would like to submit my statement for the record.

Recent newspaper articles have indicated that this Committee has been told that the blame for recent increases in the retail price of bread rests with the middleman and distributor and, furthermore, that it is not the fault of the farmer and the miller of flour. I think we can agree that neither the farmer nor the miller should be held responsible for increased bread prices, but neither can we hold the so-called middleman and distributor responsible. As a matter of fact, the words "blame" "fault" and "responsibility" do not fit. What we should be looking for is cause.

Increased bread prices are not due entirely to the increased cost of wheat or its end product, flour. This is only part of the cause. If we can look for a moment at the increased cost of flour it really starts way back with the increased cost of seed. If seed costs the farmer more and he must pay more for the people who run his farm and harvest his products, and if his basic cost of living has gone up, who can blame him for wanting more money for his wheat?

In turn, since the miller must pay more money for the wheat he buys from the farmer and must pay increased wages to his people to process the wheat and, along with these increased costs, must pay higher costs for maintaining his plant, replacing equipment or procuring other services, he quite naturally must ask the baker for more money for the flour.

If the baker, in turn, pays higher prices for his flour, pays increased wages to his people, pays sharply increased costs for materials to package the product and substantially increased prices for everything else required to run his business, it is only logical that he, too, must ask more money for his end product if he wishes to stay in business.

I don't think we can single out the baker as being responsible for rising costs all the way back to the seed which is planted to grow the products he converts into bread, or for the inflationary costs in his business over which he really has no control. Neither can it be expected that all of these costs can be rolled into a snowball all the way along the line and passed on to the baker and that somehow this snowball will melt away with no effect on already meager profits.

Bread, butter, sugar, eggs and milk are basic foods in our daily diet. While, for the most part, not too much public attention is directed to the cost of harvesting, transporting, processing and refining of the basic farm products, when economic pressures force upward adjustment of the retail price of the end product such movement is immediately brought under close examination for cause. This is as it should be, as the product, bread, which we are concerned with here today is essential to the diet of almost all consumers, particularly those in the middle and lower income groups, and especially to adolescents to whom its nutritive benefits are most important.

The baking industry for some time has been a highly competitive industry with a traditional excess of production capacity. It competes aggressively, not only with itself, but with every other processor of food for a place in the consumer's diet. In recent years this competition has grown well beyond any forecasts made, say, 10 years ago, with literally hundreds of new products being offered as exotic, convenience items. Toasted breakfast, for example, now competes with hundreds of new breakfast foods, even a liquid instant breakfast that can be downed in a minute and for which all the benefits of a conventional breakfast of toast and eggs are claimed.

Despite the attraction of other foods, bread remains a basic important element in the diet. As such, it cannot become an item for luxury profits, nor is this possible in the atmosphere of intense competition in which it is marketed. This is very clearly demonstrated in the earnings record of the baking industry. The percentage ratio of net profit to sales or on investment has traditionally been on the low side.

Bread is a part of the mass food marketing movement we see all around us today as exemplified in the modern supermarket. The competition created by 6 huge markets in a 10-block area with 8 to 10 different brands of baked goods, plus an infinite variety of products at the bread rack, in itself inhibits overpricing. While competition effectively controls bread prices it cannot overcome the basic effect of inflationary cost pressures.

Ward is an end producer, a converter of food from one from into another. We do not use raw materials—we take finished products and make another product. Flour, butter, eggs, milk, shortening and sugar—all of these things are used in their own form by housewives and by Ward Foods. It is important to remember that increased cost of these things to the housewife reflects similar increased cost of the same items to Ward Foods. If the cost of eggs goes up an average of 10 cents a dozen to the housewife it goes up proportionately for us on a bulk basis. If the housewife today were to bake her own bread in the kitchen as her grandmother did in the old days she would be faced with the same increased costs we are faced with today and her home baked bread would cost her proportionately more.

Every year, and 1966 is certainly no exception, we must pay for substantial annual increases in the cost of labor. In our contract negotiations this year we have endeavored to keep within the President's guidelines although this has not always been possible. More importantly, we must compete in a rapidly rising labor market for qualified personnel. While we certainly do not quarrel with the principles of higher wages and better standards of living, such costs must be paid for out of sales dollars. Such increased costs cannot be brushed aside or forgotten.

Furthermore, as an end producer, each of our suppliers passes on to us his increased labor and other costs in the price of whatever product or service he supplies. For example, the recent increase and past increases in the cost of steel are making and will make every truck we buy or every piece of equipment or building using steel more expensive. Ward Foods, and the industry generally, have done an excellent job in the past in absorbing a major portion of such increases. Through increased productivity and better efficiency or through substantially reduced profits.

However, right at the present moment the impact of the higher cost of flour and other ingredients we use, plus increased labor costs, increased cost of packaging, higher cost of equipment and increased cost of services, is so great we find it impossible to stabilize selling prices even temporarily. While the full extent of increased costs cannot be exactly estimated as yet, what can be foreseen at the present time for our Company totals in excess of $6 million annually in cost increases, or six times our 1965 pre-tax profit, and we have no indication that this trend will level or abate. Price increases which we have announced, or contemplate announcing within the next 30 or 60 days (and such announcements will still be influenced largely by competitive conditions), fall according to our present calculations somewhat short of what we face in increased costs. We hope to cover this deficiency by continued belt tightening and increased productivity.

We believe that bread, despite recent price adjustments, is still one of the top nutritional consumer food values in the market. Ward Foods, and the industry generally, are running a tight, efficient, close margin business. Price adjustments have become necessary not to increase profit margins but primarily to stay in business, to provide employment to our people, to render a valuable service to our customers and to protect stockholder investment.

Mr. PURCELL. Mr. Stephen Vesecky.

STATEMENT OF STEPHEN VESECKY, EXECUTIVE VICE PRESIDENT, CAMPBELL TAGGART ASSOCIATED BAKERIES

Mr. VESECKY. Mr. Chairman, members of the House Wheat Subcommittee, my name is Stephen Vesecky and I am executive vice president of Campbell Taggart Associated Bakeries, Inc., Dallas, Tex., an organization with which I have been connected for 32 years.

I am glad to have this opportunity to appear before your committee, and I hope that my remarks will throw some light upon the price increases which are your principal concern and that they will give a better understanding of the general problems of our industry and the contribution it makes in the progress of food from the farm to the ultimate consumer.

A large number of our subsidiary companies furnished detailed statistical studies to Dr. Wayne Bidding, who was the project leader of the bakery products study of the National Commission on Food Marketing. We understand that a very extensive study of this industry will soon be available. At this point, we would mention that the

June report of the National Commission on Food Marketing in its section on baking confirmed what we in the industry already knew, and that is that the profit of wholesale bakers has been declining year after year, when measured as a percent of the stockholder's equity, or when measured as a percent of sales. This pessimistic judgment is also reflected in the security markets, where investors seem willing to place only a relatively low price earnings ratio on the stocks of baking companies. Managements of the companies have themselves been seeking ways to diversify into fields of greater profit potential.

We assume that your committee's principal interest, however, is not in the historical problems of our industry, either chronic or critical, but rather in those recent developments that have occurred since the conclusion of the study by the National Commission on Food Marketing; and we are assuming you would like to have them evaluated from the vantage point of our particular company.

Campbell Taggart Associated Bakeries, Inc., is a holding and a service company whose corporate organization is unique, including as it does some 60 subsidiary companies, each of which have minority stockholders. Our 1965 annual report included a page and a half description of the company, and I would like to submit a copy with this statement for those of you who might have a greater interest in the organization of the company.

As far as my comments today are concerned, the significant thing about the nature of our organization is that the marketing and price decisions are made at the level of the subsidiary company. The only regular and systematic report on bread prices that we get in to the parent company is a sheet that comes to our cost department at 8-week intervals, showing the name of each variety, its weight, and its price at that time. One price figure of sorts that we do keep in the Dallas office is a composite figure which we call "Price Per Pound of Dough Produced." It is not the price of the baked loaves sold, because there is no adjustment in this figure for the loss of moisture in baking, nor for the cripples and rejects that never leave the bakery, and it is further distorted by seasonal changes in product mix. However, it is a figure readily available from the other necessary accounting records and gives us some feeling for the overall trend of prices. The following shows what these prices have been for the last 6 years as well as in 1966 through July 19:

1960	$0.1522
1961	.1531
1962	.1527
1963	.1536
1964	.1530
1965	.1543
1966 (through July 9 only)	.1608

We would like to digress at this point to suggest that the above schedule, which shows virtually unchanged prices from 1960 through 1965 in a period of steadily rising costs, throws light upon the declining profits in the baking industry to which we earlier referred, and gives some feeling for the pressure of rising costs that had been building up over a period of 6 years. This should be borne in mind when we later discuss the sharp cost increases of 1966.

Of course, different people in the parent company in connection with different duties, have more fragmentary information about prices. The purchasing department may hear of some price changes when a request is received for wrappers showing a different price label in territories where price labels are in use. The cost department may run into it when they notice a different ratio between sales value and pounds produced. Our service people may hear of it as they travel in the bakeries. Sometimes a president of a subsidiary will discuss his cost problems or pricing problems with our director of sales service or some other officer of the company prior to the time when he makes a price change. We do know from all these sources that many price adjustments have been made in the baking industry.

The service we render the bakeries, however, does place us in a position to have fairly complete and accurate information about the cost pressures under which the bakeries are operating. Unfortunately, our original cost projections for 1966 are turning out to be far too low. The impact of these accumulated increases is substantial. As we look forward from this point, we project and annualize our cost increases as follows, and mind you, this is a variety of costs, not all of them. We have not included such items as increased insurance costs, increased local taxes, but we took a fair representation of our costs.

Now I shall read to you our annualized cost increase estimates. Some are already actual. The others are estimates, and we think they are fair estimates.

SOCIAL SECURITY TAXES

This projection remains unchanged. The change in rate from 3.625 percent on $4,800 earnings to 4.2 percent on $6,600 earnings will cost in a year's time, $998,000.

We should add that the employee's tax increased an equal amount, and the reduction in his check from this source, as well as from the revised income tax withholding, seemed to increase the pressure for offsetting wage increases.

DEPRECIATION—TRUCKS, CARS, TRANSPORTRAYS

The earlier projection remains valid at $379,000 a year.

DEPRECIATION—BUILDING AND EQUIPMENT

This seems to be running at the earlier estimate of $159,000 a year. However, recent bids on new construction and current prices on machinery have brought home to us how inadequate our depreciation reserves are to replace at today's prices those things we are wearing out.

LABOR

Here our hope of staying within the President's guideline of 3.2 percent is disappearing. Many 1966 contracts are still not settled, but in the Southeast the production workers' union seems to have imposed a pattern of 30 cents over 3 years—an incease of from 4 to 5 percent in the first year—and a 5-day schedule for individual employees which will introduce new inefficiencies into scheduling. In St. Louis, Mo., the wage increase immediately effective in this year's negotiations was 18 cents an hour. On the sales and delivery side of the business, a number of settlements have involved a 5-day week at the same pay as for 6. Since 6 days' work is required, this means one new employee must be hired for each five present employees, thus raising labor costs in this department by 20 percent. We should add that this breach in the President's guidelines was not entirely a voluntary act upon the part of our bakery operators. Of the first four production contracts settled in 1966, three were settled only after a strike, and the fourth after a very convincing strike threat. We now annualize the wage-rate-increase estimate at 4½ percent, which in terms of dollars, over a year's time would be $3,027,000.

FLOUR

In discussing flour prices within our organization we usually refer to the price in bulk f.o.b. Kansas City, thus giving us a basis of comparison which eliminates such variables as freight, bagging, and so forth. This figure would not be the figure shown on a particular bakery's invoice.

The first 5 months of 1965 most of the flour we used was priced, per 100 pounds, f.o.b., Kansas City, at $5.33. In June of 1965, the figure was $5.20 a hundred. The remaining months of 1965, the price was $5.65 a hundred. The year 1966 started with most flour at $5.57 a hundred. In July we used flour at $6.32 a hundred. In August we estimate the average will be $6.50 a hundred.

And since that time we have bought September, the latter part of August and September, and that price is $6.42. And we hope but have not complete confidence that we will not have to pay more than this.

To show the impact of these changes on our organization, the difference between the first months of 1965 at $5.33 and current purchases at $6.42 is $1.09 per hundred, which at our level of flour usage becomes an annual cost, increased cost, at $7,763,000.

SUGARS

In early 1965 the composite price on our bread sugars was $6.85 per hundred. We expect our future purchases to be at $7.35 per hundred. This increase of $.50 per hundred will cost, over a year's time, $323,000.

Digressing from my text, I understand yesterday the cost of raw sugar took another increase. I don't know how much. But this estimate could be off. It also could come back down.

SHORTENING

Here is one of the few areas where costs have gone down. We project annual savings of $30,000.

I would like here again to digress. When I say shortening, I am talking about lard and vegetables oils. Lard is down considerably more than that. Vegetables oils are up, and this is a blend of all shortenings we use.

Now, on to the next item, which is "wrappers."

We have had to raise our estimate of wrapper costs, which we now feel will be up annually, $1,305,000.

MILK

In January of this year we started to run into a literal milk shortage. Twice in 1966 the support price for milk has been raised. In the spring of 1965 the cost per hundred was $15.90. At this time, we must pay $12. Annualized, this will increase costs $1,018,000.

MISCELLANEOUS

Yeast is down, dough conditioners are up, for a net saving of $323,000.

SUMMARY

Thus all of these additional costs, after reducing them by two areas in which we see savings, will total $14,619,000.

Now to put all of these figures in some sort of perspective, and we ask you to remember that these figures do not include the cumulative buildup of costs during the period from 1960 to 1965 when the cost of bread remained stable:

The total contribution to profit, before any reduction for income taxes, to our entire organization, on sales of bread and bread-type products totaled $190,763,000 in 1965 and that total profit before taxes was $13,810,000.

This means that these projected cost increases would absorb this entire profit and result in a loss in our main product category of $809,000.

To make this same point in terms of percentages, the aftertax profit on bread and rolls expressed as a ratio to the sales of these products was 3.7 percent. That is the aftertax percent.

The projected aftertax cost increases relating to these products, again expressed as a ratio of sales is 3.98 percent after taxes.

This would leave for a full year's effort that produced and sold products valued at almost $200 million a loss of 0.22 percent.

It is somewhat of an oversimplification to relate these costs to a loaf of bread because breads of various weights, as well as rolls and buns, are in these figures. Based upon our best figures, however, the pure-cost increases in the rare 1-pound loaf would be 1.28 cents. In the common 1¼-pound loaf, it would be 1.6 cents. On a 1⅓-pound loaf it would be 1.92 cents.

We trust you understand that a price increase which is limited to these pure-cost increases would not preserve a preexisting profit level, since the new price itself picks up added costs, as for example, in the area of sales commissions.

In connection with my duties in purchasing, I am afraid I take a pretty hard-boiled position about the problems of our suppliers. I attempt to buy just as cheaply as I properly can on each purchase. However, in fairness and in objectivity, I would have to say that I do not feel any of our suppliers are attempting to gouge us or take an unreasonable profit, and I carry this feeling clear back to the farm. I feel that the prices we must pay and the prices we must charge are just a reflection of the times in which we are living.

Thank you, gentlemen.

Mr. PURCELL. Mr. Vesecky, let me first say we have had many good statements but I think this is the most revealing and factual statement that I have seen, not only in this hearing but at many, many of them, and I know I speak for the whole committee when I say we appreciate your divulging facts and figures that you might very properly feel you would not like to divulge to us, and we do appreciate it, and to me this makes a very convincing argument on what we have been trying to say in the last 2 or 3 days here, that situations exist that require the cost of at least this food commodity to be increased, and I would hope that the public could just use your document as absolute evidence of this necessity.

What questions do we have?

Mr. Redlin, do you have questions?

Mr. REDLIN. Yes. I couldn't agree more with the chairman in his appraisal of the splendid statement that you have presented to the committtee, Mr. Vesecky, and the thorough manner in which you have compiled it. I note that your increased costs are covering a—is it a 6-year period that you are dealing with?

Mr. VESECKY. Our cost increases that I read to you that added up to $14 million?

Mr. REDLIN. Yes.

Mr. VESECKY. That is what we are actually paying now and what we estimate we will be paying annualized a year from this date forward.

Now, earlier in 1966 we did not have these costs. So we figured we had to annualize these things. You have to start from somewhere, and since there were some price increases after mid-1965 on flour, for example, we took the early part of 1965 as a base so that we started from there and went on.

Now, we eliminated June because June I think was about—it dropped to about 13 cents lower but that is for 1 month and it popped right back up, see. So we stayed with the 533 which we felt was a fair average for the first half of 1966 and eliminated June which was a little low.

Mr. REDLIN. All right. Then it is exactly what you say, that you would expect your flour cost increases to be $7,763,000. Your labor cost increases are $3 million. Your wrapper increased costs are $1 million. Milk is $1 million. And the point I am trying to make is that the increased cost of bread involve very many different things and that as the statement was made earlier, this increase in the cost of wheat may have triggered the need for the rise but there are several other very important elements in the increased cost factor.

Mr. VESECKY. You are correct. This is an accumulation and we are not attempting to point the finger—the fact is we can't point the finger in any direction because it is all involved.

We, for example, are not either trying to point the finger at labor either. It is up. But we do have to say in labor's defense, particularly on the inside, that although they bargain hard, they have been very cooperative when we come to some machine or some method of automation or we can save some money, of working with us as long as we treat their people fair. In other words, if it is going to eliminate a man, we treat him fair and, well, act like gentlemen about it.

Mr. REDLIN. Much has been made in some quarters about the discount procedure of bakeries related to your relationship with retailers. What is your comment on this—were you here, Mr. Vesecky, when this was discussed earlier today?

Mr. VESECKY. Yes, I was, and I have to profess that my area in our company does not include marketing and I do know that there are discounts and that as far as our legal department is concerned, or what we do know about them, they are made to meet competition and it is just a part of the way of doing business.

Mr. REDLIN. Is there such a thing as a volume discount in your business to a retailer?

Mr. VESECKY. I couldn't say whether those discounts are based on volume. I would assume they could be but I couldn't say for sure. I do know on things we buy——

Mr. REDLIN. Just one other question.

Mr. VESECKY (continuing). From other companies, for example, tires, there are volume discounts on tires. And it is always in the realm and scope and within the Robinson-Patman Act because those things are scrutinized pretty carefully.

Mr. REDLIN. When you purchase flour for your operation from the miller, would you explain your operation there a bit? You would deal individually in lots?

Mr. VESECKY. Well, it is really a fairly simple process the way we do it. We naturally study the commodity markets, the wheat market, and when we figure out it is time to buy, particularly if we are planning to extend our commitments, sometimes you run into a situation like in early July and August where we were buying what they call PDS; that is, price data shipment. The miller prices it the day he ships it. You do that so that you have nothing in the pipeline hoping for a decrease. And luckily one did come along. We are paying less now for flour than we were in the July period.

Our highest price that we paid over a 5.57 price was 1.15 or 1.17 I think it was. I have got it here somewhere. But nevertheless it has gone down some. We are, however, apprehensive as to whether or not it will stay there, but that is just part of the game. Sometimes you win, sometimes you lose.

The farmer plays the same game, only he has weather involved. Thank goodness we don't have the weather.

Mr. PURCELL. Mr. Callan?

Mr. CALLAN. Do I understand it correctly that you sell to wholesalers?

Mr. VESECKY. Yes; we sell wholesale.

Mr. CALLAN. And from when this price took this jump, what did you increase your price of bread wholesale, can you tell us that?

Mr. VESECKY. I cannot answer that. As I told you—I guess you arrived a little late—in the earlier part of my report our pricing and marketing is handled by our subsidiary presidents and we have 60 subsidiaries, and the only regular accurate record we receive in our office is once every 8 weeks they do send us a report that gives us the variety of bread and the weight and the price at that time, and then we can take that and compare it to the previous 8 weeks and we can tell how much it went up.

Now, we do know from fragmentary information that there have been price increases but if I were to try to tell you how much bread has gone up, I would be purely speculating, and I don't think you want a speculative figure.

It will be the latter part of August before we get our next report and at that time we will have a pretty good idea of what happened. You see, not all vary the same amount either. Not all markets go up the same.

Mr. CALLAN. When your subsidiaries announced a bread increase, did they make any statement that you know of as to the reason they raised the bread prices?

Mr. VESECKY. I haven't seen any of them that actually were quotes from people in our company. I have seen two or three articles and every one that I have seen, the press I think was fair about it. They reported what that particular baker said and the blame was not on wheat alone. Labor and other costs were brought in. They didn't go to this extent and perhaps they should have. But labor in particular and milk and social security taxes. There are so many items that go into a loaf of bread in costs and any manufacturing process.

Mr. CALLAN. Do you feel that all these things accumulated up to a point so there was a point reached that you had to raise the price, is that right?

Mr. VESECKY. Well, I think the remark was made—it was an old one—that this was the straw that broke the camel's back.

Mr. CALLAN. What was the straw?

Mr. VESECKY. These recent increases in labor, in milk and flour, they were the big ones, and social security was no small one. It is not easy to swallow a million dollars.

Mr. CALLAN. I don't have any more questions, Mr. Chairman.

Mr. PURCELL. Mrs. May?

Mrs. MAY. Just two quick remarks rather than questions.

The chairman in his wisdom has said that this is a very succinct and certainly articulate statement. It occurs to me that along with what our chairman has been saying, we need to get this information, the whole story, to the American people in an understandable and readable form. Maybe we should all go together, those of us who have the responsibility, and hire some of those sharp Madison Avenue types to take everything we develop at these hearings, put it down in a readable, illustrated form, and I suggest we have Mr. Vesecky sit in as adviser to them when they do it.

And secondly, because the chairman and I are very familiar—this is a very small point but I think important—we are very familiar with the fine work of Dr. Wayne Bitting as a project leader in this study on baking and milk of the National Commission. I think we ought to tell the clerk that the spelling of his name is incorrect. It is B-i-t-t-i-n-g, and I am sure, since he is going to get credit for it, he would appreciate having it spelled correctly.

Mr. VESECKY. I appreciate your spelling it. I know Wayne but I don't know how to spell his name.

Mrs. MAY. Thank you, Mr. Chairman.

Mr. PURCELL. Mr. Vesecky, I think you can see that your presentation has been very effective. I again say thank you very much for your contribution, and we appreciate your being here.

Off the record.

(Discussion off the record.)

Mr. PURCELL. The committee will recess until 10 o'clock in the morning.

Mr. VESECKY. Mr. Chairman, am I through now?

Mr. PURCELL. Yes, sir.

Mr. VESECKY. I have reservations to go home tomorrow.

Mr. PURCELL. We would be glad to have you as long as you like to stay, but as far as your obligation to us, that ends here.

Mr. VESECKY. Thank you very much, gentlemen; it was a pleasure.

(Whereupon, at 5 p.m., the hearing in the above-entitled matter was recessed, to reconvene at 10 a.m. tomorrow, Thursday, August 11, 1966.)

BREAD PRICES

THURSDAY, AUGUST 11, 1966

House of Representatives,
Subcommittee on Wheat of the
Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 1301, Longworth House Office Building, Hon. Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell, Foley, Redlin, Bandstra, Callan, Belcher, Findley, and Dole.

Also present: Representatives Hagen of California, Dague, and Mrs. May.

Betty Prezioso, staff; and Francis M. LeMay, consultant.

Mr. Purcell (presiding). The subcommittee will please be in order.

Today, we will hear from the retail trade.

Our first witness is Mr. William S. Mitchell, senior vice president of the Safeway Stores, Inc.; accompanied by Mr. Paul A. Baumgart, manager, economic research department, Safeway Stores, Inc.

STATEMENT OF WILLIAM S. MITCHELL, SENIOR VICE PRESIDENT, SAFEWAY STORES, INC.; ACCOMPANIED BY PAUL A. BAUMGART, MANAGER, ECONOMIC RESEARCH DEPARTMENT, SAFEWAY STORES, INC.

Mr. Mitchell. My name is William S. Mitchell, and I am appearing before this subcommittee on behalf of Safeway Stores, Inc. My position with Safeway is senior vice president in charge of the buying and processing of our private label merchandise, and I also am manager of the company's midwestern retail region. I have been employed by the company since 1936.

On behalf of the company I would like to thank the subcommittee for this opportunity to appear before it to give our views on the subject of bread pricing, and perhaps to clarify some misunderstandings. But before proceeding, I would like to tell you something more about the company and to orient you concerning our organization.

Safeway Stores, Inc., operates about 1,875 supermarkets in the United States, mostly in the areas west of the Mississippi River, the exception being the Washington, D.C. retail division which operates 227 stores in the District of Columbia, Maryland, Virginia, and limited portions of adjacent States. The company operates 15 bakery plants in the United States, which produce baked goods, principally bread and rolls, for sale in our own supermarkets under one or more company-owned brands.

In the normal course of operation, our retail supermarkets carry baked goods which are produced in company-operated plants and also baked goods which are procured from outside vendors, including so-called national and local bakeries. The baked goods produced in our company-operated plants are generally referred to as "private label." The baked goods procured from other vendors are referred to as "outside brands." Although it varies materially from one area of the country to another, a substantial portion of our retail bakery goods volume is done in our private label products. In the case of breads, in particular, our private labels are our volume sellers, which we estimate on the average account for over half of our bread business.

To further orient the members of this subcommittee, I would like to describe briefly the Safeway organization. The administrative unit for operating our stores is called a retail division. There are 18 such retail divisions in the United States. The retail division range in size from around 40 to 230 stores, with each division in charge of a division manager. Thus, our organization is decentralized geographically and to a great degree the division manager is autonomous in his decision. For example, decisions resting with the division would include hiring, operating hours, selection of merchandise, buying, advertising, store-stocking plans, et cetera, and the retail pricing of the items handled.

Decentralized operating, merchandising, and pricing decisions by our various managers across the country are, of course, expected to conform, generally, with broad corporate policy. For example, the company recognizes its responsibility to the public generally, to its customers, to its employees, and to its stockholders to do its part in national programs designed to restrain inflation. That includes a desire and willingness, throughout our operation, to assist in the curbing of increases in food prices brought about by temporary supply deficiencies and other inflationary elements in today's economy. The company recognizes that inflation is the enemy of all of us and that in the long run no one gains by inflation and everyone loses. To restrain these inflationary tendencies is good for the public who are our customers. And what is good for our customers is good for our employees, our suppliers, and our stockholders. We think it is simply good business for the company.

Decentralized pricing authority is, of course, limited by various Federal and State laws, in addition to which United States Safeway operations are subject to a 1957 consent decree which restrains us, in some instances, from selling at what are determined to be "unreasonably low prices."

Twice within the past 2 years we have anticipated situations which we at Safeway headquarters felt could lead to bread price increases of a transitory nature, or which might exceed those merited by sound consideraiton of costs, supplies, and demand. In both instances, we felt that any bread price increases should be based upon unusually careful and cautious business judgments, and that certainly our retail pricing of bread should be commensurate with the long-term best interests of our suppliers, including farm producers, our customers, and the public in general. Therefore, in both of these instances, we made temporary, special exceptions to the principle of decentralized authority and responsibility for retail pricing decisions.

The first occasion was in July of 1964, when we anticipated that there might be some unusual price activity on bread upon revision of wheat support legislation. We issued the following instructions, by way of a private wire system that we use for communicating with the divisions, and I will now quote:

JULY 13, 1964.

From: W. S. Mitchell.
To: U.S. retail division managers.
Re: Bread price increases.

Newspaper and trade publications indicate that price increases for bread are imminent in many areas.

It has been decided that all increases in the retail price of bread shall be cleared with the administrative office before—repeat before—they are put into effect. This applies to both outside brands and our private label bread.

If price increases occur in your area and you desire to increase the retail prices in your stores, please PLM full particulars, e.g., cost and sell for each item affected, cost changes, competitive pricing, retail spread between primary brands and private label and your recommendations.

Please send copies of your PLM to RAM (R. A. Magowan, Safeway's president) and QR (Quentin Reynolds, senior vice president, U.S. retail operations). If urgent you may phone me and I will discuss with RAM and GR. We will get reply back to you promptly.

The reason for this request is that the management wants to be sure that Safeway's pricing is in accord with the public's best interests.

Please follow through on foregoing until further notice.

(Signed) W. S. MITCHELL.

Carbon copies: R. A. Magowan, Q. Reynolds, M. Grover, R. W. Church, H. Clay.

As the supply and price situation clarified, these instructions were withdrawn and the responsibility for local bread pricing again returned to our decentralized retail management on September 28, 1964.

About 2 years later, last month on July 18, 1966, we again became seriously concerned about reports of shorter wheat supplies, rising costs, and possible imminent upward price trends on bread. The following instructions were issued:

JULY 18, 1966.

From: Quentin Reynolds.
To: All U.S. retail division managers.

Recent press articles indicate bread price rises may be in the offing in some areas. Before taking action to increase prices Safeway brands please consult with this office giving reasons and full particulars of local situation.

Carbon copies: W. S. Mitchell, H. B. Clay, K. W. Hess, M. P. Grover.

I wish to clarify that neither of these instances of bringing the review of retail bread prices into Safeway's headquarters office in Oakland meant that we were not going to make any price changes. The instructions did mean, however, that every retail bread price change throughout Safeway—certainly on our private label items which are our volume sellers—would receive the closest scrutiny to see that it was fully merited by the economics of the situation, and to double-check that it was, in our considered opinion, in accord with the public's best longrun interest.

68-603—66——10

Later on in this statement I will furnish the subcommittee with examples of recent retail prices on bread, but before doing so, I would like to further explain our philosophy of the pricing of private label merchandise, particularly as it relates to bread.

As I have mentioned, Safeway distributes through its stores both private-label and outside brand merchandise. Generally speaking, the private-label items are priced at discounts, or lower retail prices than the outside brands of like grade and quality. The discount or lower price may range anywhere from 1 cent upwards, depending on the product, the package size, and other factors. It also varies by locality, and from time to time. However, we have run price comparisons which indicate that a customer will save, on the average, in excess of 10 percent when buying our private-label products as compared to outside brands of like grades or qualities in a Safeway store. Bread is one of the products which we distribute extensively under one or more of our private labels. Our practice with regard to pricing bread is always to discount it below the price of the outside or advertised brand. This lower price on our private-label bread may run anywhere from 1 cent to 6 cents per loaf, but generally would be in the neighborhood of 2 cents or 3 cents. Thus, a customer wishing to purchase a 1-pound loaf of wheat bread at a Safeway store is given the opportunity of buying our private-label brand at say 25 cents, or buying a comparable outside brand at 27 or 28 cents. The choice is the customer's. We would contend that our private-label bread is every bit as good, wholesome, tasty, and nutritious as the more costly outside brand. The point is, the customer always has the choice, and oddly enough—or at least I think it is odd—the customer does not always buy the less expensive product.

On the following pages is a 2-year record of some of our private-label bread prices in Safeway stores in a number of Safeway cities. These are based on data which were available at our headquarters office. We have selected for each city the fastest moving white bread item baked in our own plants, and carried under our own label, and we have limited the information to the principal division headquarters cities. These are so-called regular or shelf prices, and do not include in-store or advertised specials. I think these schedules will give the subcommittee a quick and accurate view of what has happened to prices of a substantial segment of Safeway's bread business over the past 2 years. With a very few exceptions, it shows a picture of marked stability of bread prices and pricing by Safeway on our largest volume items. The exceptions, moreover, appear to have been largely in the nature of upward adjustments earlier this year of prices that had been relatively very low for example, Little Rock, Tulsa—or downward adjustments incident to shifts to multiple-pricing combination and/or shifts in local markets to "everyday low pricing" in contrast to deep specialing, as in Los Angeles.

Now, I think that the next 11 pages, Mr. Chairman, you may want to review later on. I do not think there is any point in my reading all of the figures. I will be happy to answer any questions on them

(The 11 pages referred to follow:)

Safeway Retail Bread Prices

Mrs. Wright's soft twisted white sandwich, 15 ounces, in Los Angeles

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	27 cents	Apr. 5, 1964, and at least since Mar. 17, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	24.5 cents (2 for 49 cents)	Jan. 31, 1966.
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.

Mrs. Wright's super soft white, 15 ounces,[1] in San Francisco

Year and month	Retail shelf price [2]	Effective date of change
1964:		
June	31 cents	Apr. 5, 1964, and at least since Mar. 15, 1964.
July	do	
August	do	
September	do	
October	do	
November	29 cents (3 for 85 cents)	Nov. 30, 1964.
December	do	
1965:		
January	do	
February	do	
March	25 cents [3] (4 for $1)	Mar. 29, 1965.
April	25 cents (4 for $1)	
May	do	
June	do	
July	do	(2).
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	Through Aug. 8, 1966.

[1] 16 ounces Mar. 1, 1965, to Jan. 16, 1966.
[2] Not including specials.
[3] Single loaf sold at 25 cents (though end seal shows 29 cents).

Mrs. Wright's white, 16 ounces, in Kansas City, Mo.

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	17.5 cents (2 for 35 cents)	June 21, 1964 and at least since June 7, 1964.
July	18.5 cents (2 for 37 cents)	July 12, 1964.
	17.5 cents (2 for 35 cents)	July 26, 1964.
August	18.5 cents (2 for 37 cents)	Aug. 9, 1964.
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	19.5 cents (2 for 39 cents)	Feb. 14, 1966.
March	18.5 cents (2 for 37 cents)	Mar. 28, 1966.
April	do	
May	do	
June	do	
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.

Mrs. Wright's soft twist white sandwich, 16 ounces, in Phoenix

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	25 cents	June 7, 1964, and at least since May 3, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	23 cents	May 9, 1966.
June	do	
July	do	
August	do	Through Aug. 6, 1966.

Not including specials.

Mrs. Wright's soft twisted white, 16 ounces, in Salt Lake City

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	26 cents	June 21, 1964, and at least since May 3, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	Price sheets not available. Exact date of decline not known.
February		
March		
April		
May		
June	25 cents (4 for $1)	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	

[1] Not including specials.

Ovenjoy white, 16 ounces, in Washington, D.C.

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	19.5 cents (2 for 39 cents)	May 17, 1964, and at least since Apr. 5, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	Through Aug. 6, 1964.

[1] Not including specials.

Mrs. Wright's white sandwich, 20 ounces, in Tulsa, Okla.

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	21 cents	June 27, 1964, and at least since June 21, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	23 cents	Jan. 31, 1966.
February	do	
March	do	
April	do	
May	do	
June	25 cents	June 13, 1966.
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.

Ovenjoy white, 22½ ounces, in Seattle

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	29.7 cents (3 for 89 cents)	May 17, 1964, and at least since Apr. 5, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	27 cents	Mar. 28, 1965.
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	25 cents	June 13, 1965.
July	do	
August	do	

[1] Not including specials.

Ovenjoy white, 22½ ounces, in Spokane, Wash.

Years and month	Retail shelf price [1]	Effective date of change
1964:		
June	31 cents	June 21, 1964, and at least since May 17, 1964.
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	29.7 cents (3 for 89) cents	June 19, 1966.
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.

Mrs. Wright's white, 24 ounces, in Dallas, Tex.

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	25 cents	June 7, 1964, and at least since December 1963.
July	do	
August	do	
September	27 cents	Sept. 13, 1964.
October	do	
November	do	
December	do	
1965:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	28 cents	Jan. 16, 1966.
February	do	
March	do	
April	29 cents	Apr. 17, 1966.
May	do	
June	do	
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.

Ovenjoy white, 22½ ounces, in Portland, Oreg.

Year and month	Retail shelf price [1]	Effective date of change
1964:		
June	23.8 cents (4 for 95 cents)	June 14, 1964, and since May 10, 1964.
July	do	
August	do	
September	do	
October	(2)	
November	(2)	
December	(2)	
1965:		
January	(2)	
February	28.3 cents (3 for 85 cents)	Feb. 1, 1965.
March	do	
April	do	
May	do	
June	do	
July	do	
August	do	
September	do	
October	do	
November	do	
December	do	
1966:		
January	do	
February	do	
March	do	
April	do	
May	do	
June	29.7 cents (3 for 89 cents)	May 13, 1966.
July	do	
August	do	Through Aug. 6, 1966.

[1] Not including specials.
[2] Not available.

Mr. MITCHELL. Now, continuing with the statement, if I may, starting on page 8 thereof:

Earlier in this statement I quoted instructions sent out on July 18, 1966, requiring headquarters review of any price change on our private label breads. This, of course, applied to any and all of our private label bread items, including the "specialties" and minor volume items as well as the fast movers tabulated on the preceding pages. For the subcommittee's information, adjustments suggested by our retail division managers and approved by our Oakland headquarters since July 18 would cover only an estimated 5 percent of our private label bread business, meaning that there has been no price increase on some 95 percent of our own bakeries' volume. The upward adjustments have been confined geographically to our Little Rock, Wichita, and Omaha operating areas, where bread prices have for some time been relatively depressed. Moreover, the advances, which have averaged about 2 cents a loaf, have most frequently been on the specialty bread items.

I might pause to say that we got a request from one store, after we wrote this, in Oregon, and we disapproved of it. It was a relatively small increase.

The foregoing material has dealt with private label bread prices. As was mentioned above, Safeway stores also stock outside brands of bread—for example, bread procured from outside vendors—with the number of outside brands, varieties, sizes, et cetera, at the discretion of local management which can best judge local buying patterns and preferences. The prices paid for this "outside" bread by the various Safeway retail divisions and outlying stores, to the numerous bakery or vendor companies—most of whom deliver directly to our stores—have indeed shown spotty increases throughout the country. We do not maintain a central record of these paying prices. However, I do know from my personal experience that it has been customary and will no doubt continue to be local practice to pass local wholesale bread price increases along to our customers by way of higher retail bread prices on those items. In short, if an outside baker raises his price to us, our stores customarily price it at retail at prices competitive with other retail sellers of that bakery's bread. It should be noted that this practice applies only to outside brands of bread. A raise at wholesale by one baker, or on just some of the "outside brand" bread items, does not automaticaly mean that Safeway stores' retail prices on all "outside" bread items, or on our own private label items, will necessarily increase. Local market price differentials among breads—and the discounts of our own labels under outside brand items—vary quite widely and frequently.

This compounds the problems of anyone's attempting to gather meaningful retail bread price information—for a market, for a firm such as ours, and certainly for national averages such as those used for construction of official Government price indexes. That is, though admitting that I am not an accomplished statistician or economist, I rather doubt the realism, let alone the accuracy, of anyone's speaking of "the Denver price of bread" or "the Safeway price of bread" or "the U.S. average price of bread." I know, for example, that customers in our stores quite readily shift from one bread to another from time to time—different varieties, brands, sizes, types—and that generally, they migrate toward the bread item offering the greatest relative value at the moment. Thus, our bakeries' and our stores' "product mix" shifts in such a way that the consumers' actual cost of bread, along with our revenue from bread as a retailer, increases less on a market price advance than might be indicated by shelf price quotations on a specific item, or by price averages or indexes.

Safeway considers bread to be a very important product to its business. It endeavors to sell a range of bread items, varieties, and sizes at prices which represent attractive values to its customers. Part of this endeavor takes the form of regular and consistent newspaper advertising support. Recent examples of Safeway ads on our private-label breads would include:

Omaha, July 13, 1966, Skylark raisin bread, 16 ounces, 2 for 45 cents; Ovenjoy white, 16 ounces, 2 for 41 cents.

Phoenix, July 14, 1966, Skylark 100-percent whole wheat, 16 ounces, 2 for 45 cents.

Salt Lake City, July 14, 1966, Skylark crushed wheat, 16 ounces, 19 cents.

Kansas City, July 7, 1966, various 16-ounce types, 4 for 89 cents.

Little Rock, July 7, 1966, Skylark wheat, 16 ounces, 19 cents; Mrs. Wright's, 18 ounces, 2 for 47 cents.

Washington, D.C., August 3, 1966, Skylark buttermilk, 24 ounces, 4 for $1.

And I have attached copies of one half dozen or so of retail ads which are simply photostats of newspaper ads and these are only samples. There are many, many more. Bread is something we advertise consistently, week in and week out. It appears to me that the supermarket shopper in Safeway cities can certainly continue to find good values in shopping for bakery items.

(The retail ads referred to follow:)


OMAHA
7/13/66
OVER 4400 WINNERS IN BONUS BINGO
NOTICE
Our "Bonus Bingo" game will end on Tuesday, July 19, 1966. "BONUS BINGO" Prize Slips for Program No. 81 may be redeemed for your cash prize thru Tuesday, July 26, 1966.
BONELESS BEEF ROAST Lb. 69c
BONELESS TOP Round Steak Lb. 89c
BRAUNSCHWEIGER or Large Bologna Lb. 49c
SMOKED PORK CHOPS Lb. 79c
B
Free! —a Safeway Beef Chart
Beef Sausage 39c
Swiss Steaks 69c
Ground Chuck 69c
7-Bone Roasts 49c
Roasts 89c
Steaks 99c
Steaks $1.19
You Can Depend on Safeway for the best of everything!
SAFEWAY'S BAKE SHOP FEATURES
APPLE NUT BREAD Loaf 33c
ASSORTED COOKIES 4 Dozen 99c
GRADE-A EGGS 2 Doz. 69c
Wheaties or CHEERIOS Pkg. 29c
Pineapple Juice 4 Cans $1.00
Sherbet 49c
Wishbone Dressing 29c
Pork & Beans 10 $1
Preserves 49c
Shortening 59c
NEW ON OUR SHELVES
White Magic Detergent LIQUID 39c
22-oz. Plastic Bottle
CANTALOUPES Jumbo Size— 4 for 99c
Lemons 6 39c
Grapes 2 49c
Avocados 2 29c
Leaf Lettuce 19c
Fresh Carrots 39c
Watermelons 99c
Mrs. Wright's Refrigerated BISCUITS 8-oz. Tube 5c
Truly Fine 2-ply Facial Tissue 6 Pkgs. of 200 99c
SAVE on FRESH-BAKED BREADS
Raisin Bread 2 Loaves 45c
Bel-air frozen Regular or Pink
LEMONADE 10 6-oz. Cans $1.00
Hash Brown Potatoes 29c
French Fried Onion Rings 35c
Bel-air Waffles 25c
Frozen Vegetables 89c
You Do Better at Safeway on Health & Beauty Aids!
AQUA NET 69c
HEAD & SHOULDERS 66c
Gold Bond STAMPS WHITE BREAD
Gold Bond STAMPS COTTAGE CHEESE
Gold Bond STAMPS INSTANT COFFEE
Gold Bond STAMPS KLEAR WAX
Fancy Quality, light meat CHUNK TUNA 3 6½-oz. Cans 89c
3 6½-oz. Cans 79c
New Intensified TIDE Giant-size Package 65c
SAFEWAY
Big Savings this Week on Bronze Household PLASTIC WARES 88c EACH
Your Choice,
Gerber Strained Baby Foods 6 Jars 65c


PHOENIX
1/14/66
SAFEWAY BEEF SALE!
SAFEWAY
USDA CHOICE
Bargains Now on Freezer Beef
Full Beef Sides lb. 47c
Hindquarters lb. 59c
Forequarters lb. 39c
Rib Roast
Standing Cuts
lb. 89c
Top Sirloin $1.19
T-Bone Steak $1.09
New York Cut $1.79
7-Bone Roast 69c
Beef Stew 79c
Short Ribs 49c
Rump Roast 89c
Boneless Chuck
ROAST lb. 79c
Lean Ground
Shoulder lb. 59c
See how you save on these Safeway weekend features!
Hi-C Drinks 25c
Ice Cream 49c
Detergent 39c
Margarine 25c
Shortening 59c
Save on Health & Beauty Aids!
Hair Conditioner VO-5 87c
Denture Cleaner 43c
More Safeway Weekend Features!
CAKES
CHOCOLATE CHIFFON
49c
RANCH-FRESH EGGS!
Freshly Baked!
Sliced Bread 2 Loaves 45c
Quality Frozen Foods from the Jolly Green Giant!
Peas, Cauliflower, Broccoli, Spinach or Green Beans
3 for $1
Featured in the "Garden Room"
THOMPSON SEEDLESS
GRAPES lb. 19c
Watermelons 49c
Zucchini Squash 25c
Golden Bananas 2 lb. 29c
Oranges 2 lb. 33c
Fresh Broccoli 29c
Red Plums 25c
BONUS BINGO
All New 3rd Series
WIN UP TO $1000
SAFEWAY


SALT LAKE Ch. 7/14/66
Bonnie Dollar is back again... with exciting news about extra savings for you!
SAFEWAY DOLLAR DAYS
Libby's Pineapple Juice 4 for $1
Libby's Tomato Juice 7 for $1
Libby's Fruit Cocktail 5 for $1
Libby's Corned Beef 3 for $1
Libby's Vienna Sausage 5 for $1
Libby's Sliced Pineapple 4 for $1
Green Beans 5 for $1
Libby's Beets 6 for $1
Skylark Bread 19¢
Beef Stew 3 for $1
Peanut Butter $1.00
Cleanser 10 for $1
Creme Rinse 2 for $1
Jell-Well 16 for $1
BONUS BINGO
Win Up To $1,000.00
Cantaloupes 2 for 49¢
Sparkling Bright Produce
Fresh Peaches lb. 15¢
Sunkist Lemons 6 for 29¢
New Cabbage lb. 9¢
Angel Food Cakes 69¢
Cinnamon-Raisin Rolls
Sesame Seed Dinner Rolls
Frozen Food Buys
Bel-air Frozen Green Peas 7 for $1
Banquet Boil in a Bag Sliced Beef 4 for $1
Grade AA Eggs Large doz. 45¢
Cut-Up Fryers lb. 35¢
Boneless Roast lb. 69¢
Chuck Steaks lb. 49¢
Sliced Bacon 79¢
Spring Lamb
Leg O' Lamb lb. 79¢
Lamb Chops lb. 79¢
Low-Low Prices On Everyday Needs!
Starkist Tuna 4 for $1
Orange Juice 5 for $1
Edwards Coffee 65¢
Sharp Cheese 79¢
Ice Cream 59¢
Salad Dressing 39¢
SAFEWAY
SAFEWAY


7/7/66
KANSAS CITY
RECENT QUIK CASH MONEY WINNERS
CASH WINNER
SAFEWAY
WIN Your Share of $86,000.00 CASH
Win $1 to $1,000.00! It's Fun! It's Fast! It's FREE! It's Easy to Play! No Purchase Necessary!
Swanson T.V. Dinners
49¢
Frozen Food Buys!
Broccoli Spears
Cauliflower
Ice Cream
Brussel Sprouts
Highway Sliced Peaches 5 for $1
All Flavors Hi-C Fruit Drinks 4 for $1
Nob Hill Coffee 59¢ lb.
All Flavors Kool-Aid 3¢ pkg.
Safeway Saves You More!
Layer Cake Mixes 3 for 89¢
Angel Food Mix 49¢
Golden Corn 6 for $1.00
Sandwich Cookies 2 for 49¢
Regular Low Price!
Post's Grapenut Flakes 39¢
Large Size Wheaties 43¢
Niblets Golden Corn 2 for 39¢
Gerbers Baby Food 10 for $1.00
Regular Kotex 12 for 39¢
YOUR CHOICE
Multigrain
Rye Bread
Whole Wheat
French Bread
4 For 89¢
Extra Stamps!
SAFEWAY
$1,000.00 WINNER
MR. & MRS. ANDREW DAVIS
WINS $1,000.00
PLAY QUIK CASH
SERIES No. 2
Pick Up Your SERIES No. 2 QUIK CASH CARD Each Time You Visit Your Safeway!
Save!
Meat Savings!
Center Sliced Ham 99¢
Large Bologna 49¢
Cut-Up Fryers 33¢
Sliced Bacon 79¢
Regular Low Price!
Similac Liquid
Strongheart
Strongheart
Giant Detergent 59¢
Enriched Flour 5 for 49¢
Bayer Aspirin 49¢
Edwards Coffee 69¢
Save on These!
Sweet Corn ear 5¢
Golden Bananas 4 lb. 49¢
Government Inspected Grade 'A' FRESH FRYERS 29¢ lb. Whole
U.S. GRADE A
Aged Beef U.S.D.A. Choice
USDA CHOICE
Rib Roast lb. 79¢
Health and Beauty Aids!
Dippity-Do Hair Set
Crest Toothpaste
Listerine Antiseptic
Micrin Mouthwash
Prell Shampoo
Large Hair Spray
Revlon Hair Spray
Bufferin Tablets
Save on These!
Gallon Purex Bleach 49¢
Pork and Beans 5 for $1.00
Half and Half 29¢
Colgate Toothpaste 59¢
Multiple Vitamins 100 for 99¢
Produce Specials!
Sweet Red Grapes 39¢
Seedless Grapes 39¢
Fresh Peaches 3 lb. 49¢
Produce Buys!
SAFEWAY


LITTLE ROCK
7/7/66
SAFEWAY
IT'S FREE! IT'S FUN! IT'S EASY!
WIN UP TO $1000
OVER $55,000 IN CASH PRIZES!!
FREE
Pick up Your FREE Game Book Today!
Play all 8 games at once! Win one or more prizes of $1,000 $500 $100 $50 $20 $10 $5 $1!
Play 21
Paper Towels 29¢
Luncheon Meat 39¢
Iodized Salt 9¢
Soda Crackers 25¢
Gentle Bleach 19¢
Mrs. Wright's Bread 2 47¢
Tomato Juice 25¢
Peach Halves 25¢
Gentle Cleanser 10¢
Lemonade 10¢
Facial Tissue 19¢
Cream Cheese 10¢
Wheat Bread 19¢
Lucerne Sherbet 59¢
EXTRA CARDS TO HELP YOU WIN UP TO $1000 in CASH
White Vinegar 49¢
Fla-Vor-Ade 6 19¢
Tooth Paste 45¢
Aspirin Tablets 67¢
Spray Deodorant 73¢
LUNCH MEAT
39¢
More Meaty Values from Safeway...
Quarter Loins 75¢
Smoked Sausage 59¢
Cut-Up Fryers 39¢
Smoked Chops 89¢
Sliced Bacon 69¢
Round Steak
Lb. 69¢
USDA CHOICE
Sirloin Steak 99¢
T-Bone Steak $1.19
Rump Roast 89¢
Chuck Roast 55¢
Top Round 89¢
Cubed Steaks 99¢
Soft Drinks
Cragmont Canned
COLA
5¢
THERE'S A SAFEWAY In Your Neighborhood
SAFEWAY
GOLD BOND STAMPS at SAFEWAY!
White Grapes
Lb. 29¢
Thompson Seedless "First of the Season"
Cardinal Red Grapes
Butter Macaroons 39c
Canned Biscuits 11 98c
Vacuum Coffee 82c
Corned Beef 59c
Liquid Detergent 37c
Cat Food 2 29c
Insect Killer 98c
Canned Biscuits 3 27c
Chunk Tuna 39c
Ear Corn
Red Tomatoes
Fresh Peaches
Red Potatoes
Crisp Cabbage
Cantaloupe
Yellow Onions
Michigan Peal
Cello Carrots
Watermelons
Arkansas Traveler Baseball Tickets — $1.25
SAFEWAY

Mr. MITCHELL. With regard to recent increases in the costs of ingredients going into a loaf of bread, our bakery accountants estimate that ingredient cost increases since the first of the year have been in the neighborhood of one half of a cent per pound-loaf of bread. Just whether such cost increases should be absorbed by the baker, or the retailer, or passed along to the customer, or perhaps raised further to cover known increases in wages, payroll taxes, and other operating costs of food retailing, I do not know. However, in the intensely competitive business of supermarket retailing of foods and other products, we neither practice nor do we adopt as rigid guides any step-by-step tying of each ingredient or operating cost increase to individual item shelf pricing and specializing at retail.

In summary, we at Safeway are also concerned about the tendency toward inflation in our Nation's economy. We, too, are concerned about the apparent indications of higher food prices. And we are most certainly concerned with the upward pressures on bread prices. However, we believe that the record as submitted to this subcommittee today clearly indicates that our company has taken a position of responsibility and restraint in this matter which is consistent with our own self-interest and the public's best interest. This is not to say that bread prices will not increase in the future, at Safeway or elsewhere, because we do not know what the future holds. But, we pledge that Safeway will continue to act, to the best of our ability, in accordance with good business judgment in the retail pricing of bread, as in the pricing of all food products, to the end that our customers will always receive good value. That, we believe, is the way that we can at the same time best serve the long-term interests of our Nation's farm producers and the public in general.

I thank you again for this opportunity to appear before this subcommittee.

Mr. PURCELL. Thank you, Mr. Mitchell.

Mr. Redlin, do you have any questions?

Mr. REDLIN. Yes, Mr. Chairman.

I appreciate your very detailed and very well prepared statement to the subcommittee this morning, Mr. Mitchell. I think that I see in it where your statement relates itself to the individual situations around the Nation, that you have very clearly stated that it is difficult to have a single local price over the Nation on a certain size loaf of bread. Do you mean that you feel that there is good and healthy competition at the retail level, that at this level this competition acts to keep the bread price low and reasonable in all of the areas that you operate in?

Mr. MITCHELL. There are several things that determine the price of bread, that is, the price that we sell bread for, and one of them is what we have to pay for that bread, or our cost. Another is the competitive situation.

Another would be what I might call the merchandising strategy of the particular division.

And the desire to create what we would refer to as "a low-price image," or "a favorable image" with the customer.

All of these things go into the pricing of bread and other commodities.

As I mentioned, we have 18 division managers, and these men are endeavoring, day by day, to improve their business, to attract and satisfy customers, to present real and meaningful values to our customers.

It is these factors that result in our pricing.

Mr. REDLIN. You say that your company likes to maintain a low-price image in this area, as well as in other areas, particularly though in this area of bread?

Mr. MITCHELL. My personal philosophy is that I would like to have a low-priced image for the company on the major items that large families buy, and you might say not alone the poor families but the volume buyers. I think that we should price bread at a reasonable price, according to my own theories of merchandising, to give the customer a fair value. I think it should be priced with other things at fair value, such as milk and probably oleomargine, sugar, flour, and another good item would be peanut butter.

Mr. REDLIN. In allowing nationally advertised brands on your store shelves, you deal with the companies that want to deal with you, who come to you and ask for shop space, and you treat them in relation to the volume that they seem to predict that they can give to your store. We have heard various statements here as to different promotional kinds of things that the outside brand uses in the various markets.

Will you explain how you deal with the nationally advertised brands that come to one of your managers to talk this over, how he gets the shelf space, and how much shelf space he gets?

Mr. MITCHELL. The decision as to what items are stocked in a division is up to the local division manager. He has to decide whether he is going to stock two or three or what number of outside brands of bread he will stock. I have seen them do this in an area where they would say: "Here are four acceptable brands that have a good brand business throughout the area," and they would work this out with the store managers. "You cannot have all four, because you do not have room for all four, but if the preference in your neighborhood is for brands X and Y, you can have that; if the preference in your neighborhood is for brands A and B, you can have those two brands." So, it is very much localized. We do not attempt to control it from our headquarters.

Mr. REDLIN. You did say in your statement that as between private brand breads and your own that your own brand of bread is by far your biggest seller in your stores. Did I understand you correctly?

Mr. MITCHELL. That is, on the average; yes, sir.

Mr. REDLIN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Belcher?

Mr. BELCHER. I have no questions.

Mr. PURCELL. Mr. Callan?

Mr. CALLAN. Would you turn to the page on which you have the 22½-ounce loaf of bread, for Seattle, Wash.?

Mr. BAUMGART. That is on an unnumbered page.

Mr. CALLAN. That is right. And then the same bread is promoted in Portland, Oreg.?

Mr. MITCHELL. Yes.

Mr. CALLAN. I notice that in June of 1964, the 22½-ounce loaf of bread retailed at 29.7 cents in Seattle, and you have held that price right up to February of 1965, and then you reduced the price 2.7 cents, and you held that price through May of 1966, at which time you reduce 2 more cents, and it is now 4.7 cents a loaf cheaper in June of 1966, with increased bread prices all over the country.

And then when you go to Portland, Oreg., the same situation prevails, the same 22½-ounce loaf of bread in June of 1964 was selling at 23.8 cents a loaf and you held that price up until February 1965, and now it is up to 29.7 cents. So, since June 1964, you have the price 5.9 cents higher in Portland, Oreg., and 5.5 cents cheapter in Seattle on the same bread.

What I was trying to get at is the retail price now with the certificate added, and you have your bread cheaper at one point than you had it in 1964, but on the other hand you reflect some increase in the costs in the other, with the result that in Portland and Seattle, which are relatively close together, the prices are different. What is the reason for that difference?

Mr. MITCHELL. As I mentioned earlier, cost is only one of the factors that go into determining the retail price, and this is particularly true from our standpoint, because we are retailers and we are dealing directly with our customers.

In addition to costs, they are trying to establish a low-priced image. There is retail competition. There is competition with the nationally advertised brands in our stores.

This is what the merchandiser in these two areas is trying to accomplish. So, I cannot answer why he did these things. Both of them, in my opinion, represent fair value.

Mr. CALLAN. I am not suggesting that this does not; I am just trying to figure out, why, when wheat prices were lower your bread price was higher, and now when the wheat price is higher the bread is 4.7 cents cheaper in one instance, and, on the other hand, in the Portland, Oreg., situation, it would reflect some increase in the costs; whereas, the other might reflect no increase in cost, because you are 4.7 cents cheaper in Seattle than you were in June of 1964; that is, you are cheaper today.

Mr. MITCHELL. I think it illustrates the point that I made, that cost is only one of the elements in retail merchandising.

Mr. CALLAN. Do you believe then that the reason you can do this is the fact that you have your own bakeries, because if you did not have your own bakeries you could not come down in the price if bread prices went up all over the country?

Mr. MITCHELL. Generally, I would be inclined to agree with your statement—generally, because if we did not have our own bakeries, somebody else would be setting our costs, and, as I mentioned I believe in the statement, on outside brand of bread we pretty well follow whatever the trade does. So, if the outside baker raises his price you could be pretty sure that we would raise our price. There might be situations where the competition did not go up and we would not go up.

We have a saying around the company that we try to practice, and that is: last up and first down. So, when there is a price change we would like to see the other fellow move first so that he gets all of the blame for the higher price and we do not get it, and, then, if the price is changed downward, we would like to get that price change to our stores as quickly as we can, so that our customers will have confidence and will know that when they come to our store they will get reflected in that price the current market condition. This is part of building the price image in the company.

Mr. CALLAN. I might note that in Washington, D.C., in this area, that you have maintained price stability, so far as bread is concerned, because I notice that in June of 1964, right up until August of this year, you have not changed the price of a loaf of bread 1 penny—that it is still 19½ cents. You have not changed that at all.

Mr. MITCHELL. Not on this particular item. I want to be sure that you understand, sir, that I went through our production records, and I picked the volume items. In a bakery we might make 19 to 23 or so bread items, and we make oatmeal bread, maybe, rolled oat bread or rye bread or raisin bread, and so on, and these prices change up and down, but I went through those and I picked what I would say is a staple item, which is a bread item that the masses are buying to use as an illustration.

Mr. CALLAN. Under these situations then, increases in the price of wheat to the farmer would mean that the Washingtonian who buys Safeway bread, that the bread would not cost him 1 cent more, that it would still be at the same price as it was in June of 1964?

Mr. MITCHELL. Yes, sir; that is what our records show.

Mr. CALLAN. I think you have done a good job, and I congratulate you.

Mr. MITCHELL. Thank you.

Mr. PURCELL. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

I, too, very much appreciate your statement. Would it be fair to say in summary that the Safeway Stores' price of bread is far more subject to change in response to price by competitors than to change in costs?

Mr. MITCHELL. Well, sir, we would not price it higher than the other products. We might price it the same or we might price it lower, but bread is so important to our business that we would not be any higher. So, in that respect, your statement is correct, but competition, again, is only one of the elements. There are times when you are trying to do something with a merchandising plan, and you are trying to create an image—it may be on bread or on other goods—it might be coffee.

Mr. FINDLEY. In your operation, diversified as it is, you are in a position to take losses rather consistently on bread if competition calls for it?

Mr. MITCHELL. I do not know of any situation where we have even taken sustained losses on bread. I am aware of situations in the country where bread wars have been started. As I mentioned earlier—I believe I mentioned it earlier, the policy is not to sell below cost. We never initiate below-cost selling. However, we will not back down. I have seen bread wars start where somebody gets bread down to a ridiculously low price, and we will stay with them.

Mr. FINDLEY. You price your trade bread, that is, the non-private-label bread, to be competitive with other retail outlets in each community? That is generally the goal, as I understand your statement.

Mr. MITCHELL. Yes.

Mr. FINDLEY. Is your pricing of these items kept comparable with items in other stores?

Mr. MITCHELL. If I understand your question, yes, sir. We maintain a competitive posture with regard to the price range of bread.

Mr. FINDLEY. Have you observed a price increase in such items over the past year?

Mr. MITCHELL. On our outside brands of breads?

Mr. FINDLEY. Yes.

Mr. MITCHELL. Yes, sir; we have. I mentioned that in the statement.

Mr. FINDLEY. I am sorry. I overlooked that. Could you indicate what the price increase has been?

Mr. MITCHELL. No, sir; because we do not regularly receive prices or price changes that occur out in the divisions.

Mr. FINDLEY. You may have seen Mr. Schnittker's statement that the price of bread advanced about 1.1 cents a pound loaf during the past year. Would this seem, from your experience, to be a reasonable estimate of the price change?

Mr. MITCHELL. I would not have any basis for agreeing or disagreeing with that statement, because I do not see the prices in all of the 18 divisions where we operate and, of course, we only operate in a portion of the country. I am aware that there have been bread price increases, of course.

Mr. FINDLEY. You stated that the ingredient costs in a pound loaf of bread have gone up about 0.9 cent. If Mr. Schnittker is correct that the average price of a pound loaf of bread has advanced 1.1 cents during the past 12 months, would you conclude from this that there has been an excessive profit taken by the bakers or by the retail outlets on bread in the past year?

Mr. MITCHELL. No, sir; I would not, because, for this reason: The figures you are quoting might apply to many, many bakeries. I do not know what they are using in their bread or where they are buying their ingredients or their supplies, and so on.

The figures I quoted were simply for our own bread. I do not have any knowledge on that.

Mr. FINDLEY. Do you consider that the price of a 5-pound bag of flour has remained fairly stable? Has the price of that changed in the last year?

Mr. MITCHELL. May Mr. Baumgart answer that?

He wispered in my ear that he has information on that.

Mr. FINDLEY. Yes.

Mr. BAUMGART. We have partial records on that, the simple average on a 5-pound bag of flour in the 18 divisions of the company under our label—and if you will bear with me a minute, I think that I can find that information.

Mr. FINDLEY. All right.

Mr. BAUMGART. These are our regular prices, not including any specials. On July 16, this year compared with a year ago, the simple average was 55.8 cents per 5-pound bag, this July versus 55.7 cents of a year ago.

Mr. FINDLEY. Virtually no change.

Mr. BAUMGART. That reflects 0.2-percent increase to that date. I do not have any more up-to-date record.

Mr. FINDLEY. What is the price now in the stores, do you have any idea?

Mr. BAUMGART. I am really unable to state.

Mr. FINDLEY. Do you mill your own flour?

Do you have flour mills?

Mr. MITCHELL. We have a corn mill.

Mr. FINDLEY. But not a wheat mill?

Mr. MITCHELL. No, sir.

Mr. FINDLEY. Then, you buy it from firms like Pillsbury and General Mills and companies like that?

Mr. MITCHELL. Yes, sir.

Mr. FINDLEY. If they were to make a 25-percent cut in the wholesale price of flour, what would your likely price on those items be?

Mr. MITCHELL. You are speaking of a resale item?

Mr. FINDLEY. Yes, sir.

Mr. MITCHELL. Commonly known as family flour, we would cut our price on any commodity or on any item when a vendor announced a substantial decrease. And, as I mentioned earlier, this is what we are striving to do in our price image. If we got that information, we would get out on the floor as quickly as possible, and be the first one with the new low price tag in the store.

Mr. FINDLEY. Ordinarily, you would pass on the full 25-percent price reduction?

Mr. MITCHELL. I think that we would pass on that; we do so more or less, because there is something that goes on in the retail trade that these fellows get what might be considered a psychological price, and they sell something for 59 cents and they sell something for 49 cents, but they would not think of pricing it at 60 cents or 50 cents—they would not think of doing that if the price went down. They would pick the next natural price that they thought was right. Sometimes it might be a fraction more or less.

Mr. FINDLEY. But the probability is that the price cut you would make would be approximately the same as the price reduction to you?

Mr. MITCHELL. On flour or any other commodity, yes, sir.

Mr. FINDLEY. If we were to repeal the processing tax which is required of the millers who process wheat for food use, it was estimated by a witness yesterday that it would enable him to make a 25-percent reduction in the price of flour, and I presume from that, that this would also mean that the consumers in your store would expect to have the price of flour about 25 percent less. Would that seem to be logical?

Mr. MITCHELL. I think that any price reduction passed to us by the vendor or initiated by the vendor, whether on flour, or peaches, or sugar, that we would pass that on to the consumers and we would pass it on as quickly as possible, to be the first one with the new low price. And I expect that our competitors would be doing the same thing.

Mr. FINDLEY. Thank you. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Dole?

Mr. DOLE. First, I would commend you, Mr. Mitchell, as the other members of the committee have, on your fine statement. Your policy has shown both responsibility and restraint. I would assume, though, that the Safeway stores are in business for profit, that it is a profit-making organization. Certainly, you have the right to make a reasonable profit. There is not any question about that.

Do I understand from your answer to Mr. Findley that you have never sold bread at a loss or did not sustain a loss? That your price for bread has always been that you would make a profit on it?

Mr. MITCHELL. I realize that we have been at times in price wars on bread. Probably, I should have rephrased it to say that our regular pricing of bread has never been at a figure which would result in a loss, but we do—and my recollection is, when I was talking before, that I know of areas where there have been price wars, where somebody starts down and you get down to 5-cent bread, for example, and our policy, and I think any good merchant's policy would be to stay with them. And, so, we stay with them until they get it out of their system.

Mr. DOLE. I know that in areas which have been mentioned previously, there have been substantial increases in bread prices. Has there been less bread purchased by the consumers because of that? Do you have any personal knowledge on that in these areas where this has occurred?

Mr. MITCHELL. We are selling more bread today than we did before, of our private-label bread.

Mr. DOLE. What about the others?

Mr. MITCHELL. We do not keep central records, and I am not knowledgeable on outside brands of bread.

Mr. Dole. As your statement indicates, even though your private-label bread, which I would assume is the same size loaf, a 1-pound loaf, is 1 to 3 cents less than other breads, that they do not always choose the private label; that is, the customer does not always choose Safeway bread. That is a fact, is it not?

Mr. Mitchell. Yes, sir.

Mr. Dole. But you are not certain now whether more people are using Safeway bread than other brands of bread because of the price increases?

Mr. Mitchell. No. But our bread business has been very good. We are selling more volume this year than we did last year.

Mr. Dole. I appreciate that, coming from the largest wheat producing area in America. I trust your bread business remains good.

I would again say that your policy has been a very responsible one. Frankly, I do not know what we can do about finding a solution to the price increases in bread.

Mr. Mitchell. Thank you.

Mr. Purcell. Mrs. May.

Mrs. May. Mr. Mitchell, I would like to commend you for a very excellent statement.

Yesterday, one of our witnesses, Mr. Wolff, a Congressman from New York, was quite critical of certain practices in the wholesale baking business as being inefficient and leading, therefore, to more cost than might be necessary, in reference to the distribution systems, for one thing.

I wonder if you are in a position to comment on what has been done in this regard?

He said that if you could eliminate the practice of consignment, you would save 20 percent on the price of bread which could be passed on to the consumer.

He spoke, of course, in further detail of the general practice that does go on, where the bread must be taken from the shelf of the retailer at the end of 1 or 2 days, that other brands of bread, compared with the private label bread would not stay on the shelf beyond a certain time. Do you agree that the consignment practice is very widespread?

Mr. Mitchell. I agree that the consignment practice is generally widespread, so far as I know, but I do not agree that it would cut out 20 percent of the cost. You are speaking of the retail cost?

Mrs. May. He did not really identify where all these savings would come from; at least, in his statement he indicated that if the practice should stop, it would result in a substantial decrease in the price of the bread.

Mr. Mitchell. I would agree with the Congressman, that we could have better distribution from the wholesale bakers, but I do not know what the solution is to it.

Mrs. May. There was an indication that this was a practice dictated by the retailers, that it had to be done by the wholesalers.

Mr. Mitchell. I would say that is incorrect.

Mrs. May. Would you say that that is correct?

Mr. Mitchell. I would say that it is incorrect.

Mrs. May. Would you comment on that?

Mr. MITCHELL. Yes. We buy on the terms of the vendor, and we do not dictate their way of doing business. So, I know of instances where we have purchased wholesale bread delivered to our warehouse where we then put it on our trucks and treat it like our private label bread. It goes out to the stores and is stocked by our clerks, et cetera.

I do not think that Safeway has forced the bakery people into this method of distribution.

Mrs. MAY. What do you think are some of the factors in this situation of inefficient distribution that you have agreed is in many places, where perhaps greater efficiency could be gained by some other method of distribution? What is your comment as to whether the wholesale bakery distribution practice is inefficient from your point of view?

Mr. MITCHELL. I really do not know why they do it. It is a traditional thing, and I suppose it is difficult to change a traditional method of distribution. I heard the various baker witnesses at the hearings yesterday talk about their high cost of distribution. I feel sorry for them. I do not know what the solution would be.

Mrs. MAY. One other comment on a subject of interest that was discussed in yesterday's testimony, and in the testimony of the day before by witnesses, the practice of discounts. We heard testimony that this was a rather widespread practice throughout the trade, to discount to the retailer on brand bread, for the purpose of getting entry into a market. Is this a practice carried on generally in your own organization, so far as you know, and what is the reasoning behind it?

Mr. MITCHELL. To my knowledge, we have never been involved in any of these to what you are referring to, such as under-the-table deals, special discounts, and that type of thing. All of our buying, as I mentioned, is done at the divisional level, but those buyers are well-trained people, and when we buy anything, when someone comes in and they have a special arrangement, or a deal or something like that, these people are trained to ask, or to receive in writing from that company making that proposition a statement that these discounts, these allowances, the arrangement is open to the trade generally. And this is all policed and controlled and supervised by our legal department who is very careful about what you are doing.

Mrs. MAY. Would you be willing to comment as to whether all retail outlets, that you have any knowledge of, follow this same practice?

Mr. MITCHELL. I do not have any personal knowledge of that.

Mrs. MAY. Perhaps that is an unfair question.

I do not necessarily think that a discount has to be an under-the-table type. It may be a discount which might be a very good business practice, to get a new brand into the retail outlet, to try to sell it. I understand that. I understand that it is for competitive reasons.

If it is general in many areas, that discounting does go on in these various areas, through retail outlets, do you think that the whole situation might be improved if everyone, organizations such as yours, insisted on the same benefits—in other words, if the discount is offered to you, that you will have the assurance of the companies making such offer that the other retail buyers should be given like discounts, so that everyone has the same discount? Do you think that would improve the general situation if this were to be done?

Mr. MITCHELL. In other words, what you are describing, I believe, is the law. I certainly subscribe to that, that everyone follow the law completely.

Mrs. MAY. It is very nice to have you say that.

Thank you very much.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Callan, do you have any further questions?

Mr. CALLAN. I would just like to point out again that according to your statement that while the wheat prices have gone up, the people in Seattle, Wash., can buy bread 4 cents per loaf cheaper now than they could in 1964, and in San Francisco 6 cents cheaper than they could in 1964, and in Salt Lake City 1 cent cheaper than they could in 1964, and in Washington, D.C., which would indicate to me that the concern as to the consumer getting hurt by a higher wheat price is not valid, and I assume that these figures are right. The farmer received about 40 cents more per bushel for wheat this year than he did the last year, and it does not indicate that it had meant higher prices in the Safeway stores in these major cities of the United States.

Mr. MITCHELL. I believe that your observation is correct, with regard to these particular items in these particular cities. I would like to be sure that you understand that Safeway, and I believe any other business, is going to get back from their sales all of their costs plus a profit, and that what we pay for merchandise is, eventually, going to be passed on to the consumer. In these particular areas, we choose to sell bread cheaper, because we think that is a good policy, because it attracts the big volume family, and we so sell oleomargarine, peanut butter, flour, and a few other things that are attractive to these people.

Mr. CALLAN. You are not suggesting that you would overprice other articles in the store and underprice bread?

Mr. MITCHELL. Not overprice, because in the total product mix, we are going to cover all of our costs, and we are going to have a profit, if we are lucky.

Mr. CALLAN. You will have a profit——

Mr. MITCHELL. We are going to have, I say, if we are lucky, but we think that there are certain items that are sensitive to the public, and we think there are certain items that are sensitive to the public, I repeat, particularly at a time when the newspapers are carrying a lot of stories about price increases, and if we can convince the public that we are holding the line, we should have all of the customers then.

Mr. CALLAN. I think that you get a good share of them.

Do you know of any of your competitiors who have their own bakeries?

Mr. MITCHELL. Yes.

Mr. CALLAN. They do have?

Mr. MITCHELL. Yes, sir.

Mr. CALLAN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Redlin?

Mr. REDLIN. One brief question.

You indicated in your testimony that there was as much as 6 cents, I believe, difference between your own brand of bread at a given point and the nationally advertised bread, to use your description, the other brands of bread. Would you care to comment why you believe that difference is that wide?

Do you believe that it is related, as the Congressman said, to the distribution consignment type of thing?

Do you think this is a big element in it?

Mr. MITCHELL. I do not know enough about the baking industry, the wholesale baking industry, to know what their costs are, except what I heard yesterday in the testimony. Unquestionably, they have higher costs than we do.

Mr. REDLIN. I believe one witness said something like 35 percent had to do with distribution costs. Would that be in any way anything to indicate to you that, perhaps, this is an area that makes for this 6-cent differential?

Mr. MITCHELL. I am sure that their distribution costs are higher than our distribution costs, from what I heard yesterday, but this 6 cents that was referred to might even be higher in some areas, and is not necessarily a reflection of costs between the two items. As I said earlier, cost is one element of retail pricing; another is competition, and in some instances some people may be selling bread much cheaper than we were going to sell it, but we are meeting them.

Now, another thing might be, that our manager who is mapping out the merchandising plan may feel that he needs to get more volume in bread, and that he will increase this differential to make our bread more attractive relative to the others, but there are many, many reasons and many, many things that are considered in setting a retail price.

I do not want you to get the impression that our bread costs 6 cents less per pound or 8 cents per pound, because this may or may not be true.

Mr. REDLIN. Thank you.

That is all.

Mr. PURCELL. Mr. Dague, do you have any questions?

Mr. Dague is the very distinguished ranking Republican member on our Agriculture Committee.

We appreciate your being here, Mr. Dague.

Do you have any comments or questions?

If so, we will be glad to hear from you.

Mr. DAGUE. I have no questions, Mr. Chairman. Thank you.

Mr. PURCELL. Mr. Hagen, do you have any questions?

Mr. HAGEN of California. I would like to ask a question which you may or may not be able to answer.

When Mr. Schnittker testified here, he had some charts which showed rather substantial increases in bread prices, in various parts of the country, but oddly enough, in Los Angeles where they apparently had the highest bread price, there had been an actual decline recently in the bread prices.

I wonder if you know anything about the reasons for that?

Mr. MITCHELL. You are referring to——

Mr. HAGEN of California. You have a chart that shows essentially the same thing.

Mr. MITCHELL. This reflects, in my opinion, the merchandising philosophy of the man who is running the Los Angeles or southern California division. He has been pricing his bread at 27 cents. He changed it down to a multiple price. When you price something at a multiple price, sometimes you can increase your total dollar volume of sales, because the big families buy in multiples. I have seen multiple prices on bread where they run sixes and eights. So, it becomes very attractive. At the same time he did this, he changed his merchandising philosophy from what we call high-low pricing to everyday low pricing, and this is, probably, confusing to you, but I would briefly try to explain, high-low pricing is where they price things at a certain level, and then they come in on a weekend with a big price cut, and "low everyday pricing" is where they take a reasonable price, and then they do not make cuts at the weekend.

This reflects, in my opinion, his change in merchandising philosophy.

Mr. HAGEN of California. Apparently, this reduction in price obtained not only for Safeway but for other bread sellers.

Mr. MITCHELL. The whole market in Los Angeles, or a substantial portion of the market went to what I referred to as "low everyday pricing."

Mr. HAGEN of California. I want to ask one other question. I have noticed that a lot of bread now comes wrapped in a second wrapper, a kind of plastic wrapper like a bag. I would suspect that this adds to the cost of the bread. Is this an item of cost which has occurred fairly recently, and just how much does it amount to?

Mr. MITCHELL. Our people tell me that it costs about one-half a cent, or more, a loaf to put it in a bag, but these costs are coming down, because of the volume increases realized by the manufacturers of the bags and the ability to bag the bread automatically. So, when we first went into the bag method of encasing the bread, it was costing us one-half cent more a loaf, and the cost is now coming down.

Mr. HAGEN of California. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Are there any further questions?

If not, let me join with my colleagues, Mr. Mitchell, in saying that your statement certainly has been very worthwhile so far as we are concerned. I appreciate your being here. We appreciate the detail and the other information that you have given us. I would draw just one parallel.

You may not agree with me, but in listening to you this morning and having heard the other witnesses—in fact, many other witnesses over the months and years—I wonder if you might agree that you, as a retailer, are sort of like we, as politicans, in that we have to take stands on almost every issue, and some of our friends take both stands and some adversaries take more than one stand, but we have to face the public and kind of balance the whole thing off and get along with all of them. It seems to me that you and the other retailers are in the position of trying to equate the problems and the money matters and the attitudes of your suppliers, but primarily to accommodate the customers, because without them you would not stay in business, and we, without any constituents, would not stay in business. I just wanted to speak about that. I have a better understanding of your problems now than I had before. And I hope that maybe you can be sympathetic to our problems.

Mr. MITCHELL. I am, sir. I thank you very much.

Mr. PURCELL. All right. Thank you, again.

If there are no other questions, you may be excused; and thank you for being here.

Mr. MITCHELL. Not at all. Thank you.

Mr. PURCELL. We will now hear Carl H. Wilken of the National Foundation for Economic Stability.

We will be glad to hear from you now, Mr. Wilken.

STATEMENT OF CARL H. WILKEN, NATIONAL FOUNDATION FOR ECONOMIC STABILITY, WASHINGTON, D.C.

Mr. WILKEN. Mr. Chairman and members of the committee, my name is Carl H. Wilken, and I live at 1613 35th Street NW., Washington, D.C.

I have spent 30 years in the study of the economic record of the United States in all of its phases, and in June of last year I published and copyrighted a balance sheet of the economic record of the United States from 1929 to 1964, especially with reference to the 12 Central-Midwestern States and the principle segments of our economy in computing the national income.

My purpose in appearing before this committee is to try to dispel some of the confusion that exists in regard to the consumer prices, particularly the price of farm products, in creating inflation, and the charge that farm prices are bringing about inflation. That is one of the most unjust charges that has ever been presented to the American public through our news media.

In 1946–50, the price of farm products at wholesale, the price of all products at wholesale, and consumer prices were in approximate balance of 100 percent, generally called parity.

In 1946–50, we adjusted our consumer price level approximately 30 percent to incorporate the increasing wages and the capital costs that took place as the result of World War II. That adjustment was above the 1943 or 1929 level, whichever you prefer to use as that level.

Now, in addition to that, as the result of the 90-percent price support, which was responsible for this balance, our entire economy was in balance. The income of the farm operators, in terms of net income, the income of small business, the corporate profits after taxes, the national income were in almost the same balance with wages and interest income that existed in 1929, prior to the economic collapse.

Now, since 1946–50, we have had an increase of 41 percent in consumer prices. The price of farm products is responsible for none of this increase.

The basis for that statement is that the average price of farm products today is, approximately, at the same level as it was in 1946–50.

Specifically, this hearing is in regard to bread. In 1946–50 the farmer was paid $2.01 a bushel for wheat. That is about 25 cents more than he is getting at the present time, and, therefore, the price of wheat could have had absolutely nothing to do with the increasing price of bread today, compared to the 1946–50 average.

Another important item that is often mentioned is meat. In 1946–50, the price of steers in Chicago, Prime, Choice, Good, utility average

$26.20 a hundredweight. That is approximately $3 a hundredweight more than the present price. And for that reason, the price of cattle today cannot be responsible for the price that the consumer pays for steaks and roasts and the price that you pay for a steak dinner at the hotel and the restaurant.

If farm prices are not responsible for this increase, what is the reason?

Since 1946–50, we have had a steady reduction in the price supports for farm products and a steady decline in the price of farm products.

On the other hand, within the same period, we have had a steady increase in labor costs, and a steady increase in interest, the reflection of the capital costs of operating our country.

To illustrate, in the period 1951–65, agriculture, in terms of gross realized farm income, was underpaid $421 billion. We lost this income, and we lost this income—that is, the benefit of it—and we lost the markets.

On the other hand, the wage and interest components continued to move up, and, specifically, in 1965, the wage and interest components of our national income had increased 195 percent over the 1946–50 level. That is an increase of 13 percent per year.

As a result, our economy operated at a loss. We did not have the money to buy the goods necessary to pay the increase in wages and interest. As a result of that, we have added $884 billion to the total debt from the end of 1950 through the end of 1965.

This debt expansion approximately offset the operating loss incident to low farm prices, but in spite of the injection of $884 billion, we were short $650 billion in having enough national income to balance with the increasing wage and interest commitments. And most of this shortage was absorbed by private enterprise in terms of net farm income, small busines income, corporate profit after taxes.

To sum it up, from 1946–50 to 1965, on the one hand, we had an increase of 195 percent in wages and interest costs, and, on the other hand, we had an increase of 73.2 percent in the income of private enterprise. And in the year of 1965, private enterprise, in terms of parity of income or relative income to wages and interest, was operating at 58 percent of parity.

Now, then, it is naturally human that we try to blame conditions that exist on the other fellow. And I would like to comment a little bit on our food market.

In the case of our food marketing, we have had a tremendous capital investment in the last 15 years in supermarkets, with the packaging of foods and the freezing of foods, the precooking of foods, all for the benefit and the convenience of the consumers.

Now this capital cost represents a cost factor in operating the grocery store, because you have to get a return on the capital investment, especially if you use borrowed money.

The thing that happened to our food industry was this: The $421 billion of underpayment to agriculture did translate into lower food costs. In 1947, the consumer was using 26 percent of his disposable income for the purchase of food and beverages. In 1965, he was using only 18.2 percent. Now, applying specifically this to 1965, we had a disposable income of $465 billion, and the difference between 26 and 18.2 percent of that represents a total of $35 billion.

As the result of that, our food distributors were faced with a tremendous increase in capital costs with a declining volume of dollar sales. And in my opinion, if the records were actually and accurately presented, the food industry today is receiving less profit per dollar of sales than it averaged in 1946–50.

In my opinion, I think the American public ought to be ashamed of itself for complaining of high food costs when they are only expending 18.2 percent of their disposable income for food, when they should actually be spending 26 percent, and even with 26 percent of disposable income for food, they would have a much cheaper food, better kinds of food, a greater variety of food than any nation on the face of the earth.

In closing, I would like to make this comment:

Instead of discussing this item of consumer prices, the Members of Congress should be busy reviewing the economic record of the United States and taking steps to restore the price balance between farm products and other prices, restoring the income level of rural America with the income of the rest of the Nation in order to stop this tremendous operating loss that we have had and which has forced us to add $884 billion to the mortgage against future income. And this operating loss and debt expansion reached a peak in 1965, totaling $104 billion.

In 1965, agriculture was underpaid $51 billion compared to wages and interest increases. This means that rural America was underpaid $51 billion, because the gross farm income is the source of income not only for farmers but for all of our rural communities, and to offset this loss, resulting from this underpayment in the year 1965, we added $104 billion to the total debt—Federal, State, local, and private.

I am going to address a meeting in Decatur, Ill., tomorrow evening, in which I am going to discuss the details of the balance sheet with special application to the State of Illinois. The meeting is being called by the Illinois Farmer, a farm publication.

Upon my return, I will be glad to meet with this committee or any group of the Members of Congress and discuss the details with them.

I want to thank you for the time allotted to me, and I hope that I have given you something to think about.

Mr. PURCELL. Mr. Findley, do you have any questions?

Mr. FINDLEY. No questions.

Mr. PURCELL. Mr. Foley?

Mr. FOLEY. Just one question, Mr. Chairman.

Throughout the course of this hearing, we have heard rather constant referral to the costs of labor as being the basic reason for the increased food costs. There has not been much mention of profits except with relation to the baking industry which, apparently, we all agree, are not excessive.

But, generally, has there not been tremendous increases in profits in the last 5 years in industry? Would you agree with that?

Mr. WILKEN. I do not. I will comment on both of those things.

In 1946–50, the hourly wage in industry was $1.287 an hour. At the present time it is $2.70 an hour. In April 1965, the Agriculture Committee published a report in regard to farm prices and food costs, and in this report they tabulated the hourly return to farm labor, including management, on the one hand, and the wages for distributive labor on the other.

In 1947, the hourly wage for farm labor, including management, was $1.01 an hour, and the hourly wage for the distributive labor was $1.03 an hour.

I want you to note the approximate balance at that time.

In 1964, the hourly wage paid to agriculture, even with the elimination of about 2 million farms, was $1.06 an hour. On the other hand, labor and distribution moved up to $2.25 an hour.

I want to illustrate the profit angle.

In 1950, corporate profits, after taxes, averaged $22.8 billion out of $241.9 billion. In 1964, the national income had moved up to $510 billion. Now, as this increase in national income took place the annual average corporate profit was $22.2 billion or $600 million less than in 1950.

In connection with the profits you have mentioned, there is the fact that they have increased the corporate debt from $157 billion at the end of 1950 to $480 billion at the end of 1965. In other words, they borrowed the money for this expansion, and in the process they had to pay interest on the borrowed money, they had to pay the increase in the wages; and, as a result, they did not receive the net profits after taxes they should have. And as a result of that, their average dividend, based on the market value of stock, has fallen off from 5.57 percent in 1946–50 to 3 percent in 1964 and 1965 as compared to market value.

Mr. FOLEY. It seems to me that most of the American corporations are fooling the stockholders then, in their annual reports indicating record levels of dividend income after taxes. They are engaging in statistical shenanigans, if your analysis is correct.

Mr. WILKEN. That is true. Some of the corporations have had the benefit of this tremendous expansion in debt, as this tremendous expansion in debt was used to buy goods.

In the automobile industry, for example, they had a tremendous benefit in the huge increases in installment credit buying, and, as an offset of that, the steel companies sold a lot of steel. In addition to that, the petroleum companies sold a lot of petroleum products. And it was always borrowed money. But, taking the corporate picture as a whole, as I pointed out to you, the average dividend to the stockholders in 1964 and 1965, according to the President's Economic Report to the Congress, it was down to 3 percent, and this may explain to you why people are hesitant to buy stocks at the present time, because the earnings are not there. The public is unwilling to do so.

Mr. FOLEY. Last winter, the public seemed to be quite willing to buy stocks. The Dow Jones average hit 1,000 points, I noticed, in the last year.

Mr. WILKEN. That was done purely through speculation. They were buying those stocks with the idea of making a profit, with a price increase, but since that time the index has had a drop down to 835 points. In the meantime, during that low period, these stocks were not paying above an average of 3-percent dividends. Some were more, as I pointed out, because of the benefit from the debt expansion.

Mr. FOLEY. It depends a great deal on which segment of the economy one deals with statistically on that. For example, if you consider the level of income of the United States, generally, including the farmer and everyone, it looks pretty good, but the farmer separately being considered, it does not look so good; is that correct?

Mr. WILKEN. Let me give you a few things to think about. In 1946–50, the net farm income was $15 billion. Two months ago, the Secretary of Agriculture made a statement to the American people that he expected the net income in 1966 to be $15.1 billion, approximately the same as it was in 1946-50. But here is the other side of the story: In 1966, we will average approximately $590 billion of national income or $378 billion more than in 1946–50. In terms of net income, the farmer will not get a thin dime of it.

Mr. FOLEY. I am not arguing that the farmer is better off. I agree that the farm income has not kept pace with the national income level and the national prosperity. The only thing I am saying is that I do not quite feel or am quite convinced that the major segments of American industry are suffering a loss of profits over 1950. I do not think that they indicate that as being true. But the general level, certainly, of industry is.

Mr. WILKEN. The point that I want to make, Mr. Foley, is this, that from 1946–50 to 1965, we have had an increase of 195 percent in wages and interest. The income of small business, the income of farm operators, and the gross farm income, and corporate profits before and after taxes have not increased in proportion, and as a result of that, as was pointed out, we lacked $650 billion of having enough national income to balance with wages and interest. Now, that is really the meat of this addition of $884 billion to offset this shortage of $650 billion of income.

Mr. FOLEY. Thank you. That is all, Mr. Chairman.

Mr. PURCELL. Mr. Redlin.

Mr. REDLIN. Mr. Wilken, I appreciate your statement as to the producers' share of the consumers' dollar.

You point out another fact which, probably, is not considered often enough, and that is that we pay for the hired girl now with the groceries on the grocery shelf.

I remember that my mother had a hired girl, but I assure you that Mrs. Redlin does not. A good many of the food preparations are done ahead of time. They are on the shelves, ready and waiting for the housewife. That has been quite a big factor in the increase in cost of some food items that we sometimes forget.

Mr. WILKEN. There is no question about it. It has been for the benefit of the consumers. Many times in discussing the consumer price level, we do not take all of the facts into consideration. There are three facts involved in it.

The first is the fact that the farm product or the other raw material at the source of production is at this point picked up by private enterprise, and there is involved, too, freight and capital costs, or the investment in transportation systems, processing plants, and the wholesale and retail distribution. This cost has to be added to the price that goes to the consumer.

The next step would be the wages which the private enterprise pays in moving the product from the farm level over the systems of transportation to our processing plants and to the retail outlet, which has an effect of an increase at the consumer level.

The end result is that the initial price to the farmer or the other raw material producer, plus the capital costs, plus labor costs, should end up in the consumer price level which, multiplied by the total output of the goods and services, will generate the income.

In 1965, for example, we should have had either a 15 percent higher price level to earn enough income to balance with wages and interest, or we should have had a 15 percent increased volume of sales, or we should have had a combination of both. In other words, about a 7-percent increase in the price level, and a 7-percent increase in the sales volume.

As I pointed out to you, the food industry itself, with a tremendous capital investment, has been faced with a continuous decline in the percentage of income for dollar sales. And you can readily see that $35 billion of less consumer expenditures for food and beverages in 1965 had a tremendous effect on the earnings of our food distributors.

Mr. REDLIN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Bandstra, do you have any questions?

Mr. BANDSTRA. No.

Mr. PURCELL. Mr. Hagen, do you have any questions?

Mr. HAGEN of California. No questions.

Mr. PURCELL. Thank you.

I have just one question about something I could not follow on what you have said.

You made a statement a while ago that I just did not understand. You were referring to the fact—I guess to your base years of 1946–50—that the price of steers were at some figure and that they are now $3 a hundred lower. What was the price at that time? I could not draw the parallel.

Mr. WILKEN. The average price of hogs, steers, in Chicago?

Mr. PURCELL. I want, first, to know what the prices were you were talking about in your basic period.

Mr. WILKEN. The Chicago price?

Mr. PURCELL. Yes, sir.

Mr. WILKEN. An average of $26.20 a hundred. That is approximately $3 higher than the present price. To illustrate it, if you will get a copy of the Wall Street Journal and look on the page that has the commodity prices, you will find the cash prices. You will find that steers, choice steers, were less, about $2 less, than they were a year ago. That is the price I am referring to. That is what the farmer is to get.

From there on, the packer picks it up, processes it, and it goes through the system of distribution.

Mr. PURCELL. All right, now. I have a copy of the Wall Street Journal here. I want to know what you are talking about. When was the price of steers at $26.20?

Mr. WILKEN. In 1946–50, the average price of all steers, prime, choice, good, and utility, was $26.20 a hundredweight. I said that is about $3 higher than the average price for the similar steer at the present time, which is about $3 in Chicago. I just make the point that the price of choice steers in Chicago today is $2 less than it was a year ago.

Mr. PURCELL. According to this copy of the Wall Street Journal that I have, it says: "Steers, Chicago Choice, per hundredweight,

$26.75." That was yesterday, I guess—Wednesday. A year ago, they were sold for $29. But you said that in your base period of 1946–50, they were $26.20, and that they are now $26.75.

Mr. WILKEN. You are talking about Choice steers, whereas the figure of $26.20 is all steers. That includes the utility and the good steers which are not listed. This is the price that you are using, which is the top for Choice steers.

Mr. PURCELL. You have all of them in your figures here.

What was the price of choice steers, so that you and I are talking about the same thing?

Mr. WILKEN. You mean Choice steers in 1946–50?

Mr. PURCELL. I want to use some figures that I can relate so that I can find out what you are getting to.

Mr. WILKEN. Choice steers in 1946–50 averaged about $28 a hundredweight. That is the 5-year average.

Mr. PURCELL. What are they averaging now?

Mr. WILKEN. I do not know what the average is, but the top given in the Wall Street Journal is like you gave it, which is almost $3 less than a year ago. Is that not it?

Did you not say $29?

Mr. PURCELL. I am looking at it. That was $29.

Mr. WILKEN. A year ago, and $26.75 today?

Mr. PURCELL. Yes.

Mr. WILKEN. Yes.

Mr. PURCELL. All right.

Mr. WILKEN. That is $2.25 difference.

Mr. PURCELL. You gave some figures on your base period of 1946—50, and that the American public then was paying 26 percent of its income for food and beverages, and that they were now paying 18.2 percent for those same items. What did you include in your figure as to what is beverages?

Mr. WILKEN. "Beverages" are all of the various drinks that are sold, exclusive of alcoholic beverages.

Mr. PURCELL. You do exclude them. It would run a little higher if you included them.

Mr. WILKEN. In the President's report you will find a page where it shows the expenditures by the consumer for various kinds of goods, and one of them is food and beverages, and you will note that they have a little notation there that it does not include alcoholic beverages.

Mr. PURCELL. So, your figure of 26 percent is using the same criteria that we are now using, to say that the American consumer is spending 18.2 percent for food and beverages?

Mr. WILKEN. Yes.

Mr. PURCELL. That includes the soft drinks and the like?

Mr. WILKEN. Both of those results are shown in the President's report, in the tabulation therein, from 1929 up to the present, 26 percent in 1947, and 18.2 percent in 1965.

Mr. PURCELL. Mr. Wilken, would you mind telling us what is the National Foundation for Economic Stability in language that I can understand?

Mr. WILKEN. The National Foundation for Economic Stability and the Raw Materials National Council are trademarks. They were set up to conduct research.

The National Foundation for Economic Stability, a nonprofit organization, was incorporated in Washington, D.C., in 1959, I think, by three men. I was one of them. We have never had a board of directors. I have carried on the statistical work. Mr. White, Mr. Jams A. White, one of the incorporators, served as my consultant in Washington, and another who helped incorporate it was Mr. T. B. Huff, president of the American Serum Co., Sioux City, Iowa, who picked up the tab for the office rent. Mr. White and myself donated our time to spend 5 years working out the details of preparing the balance sheet which I mentioned. We have no connection with any organized group, political or otherwise. Our research has been purely factual.

Mr. Purcell. Who are your clients, industries, trade associations, or what?

Mr. Wilken. We have not had any clients. It took about 5 years of study to go through the records in detail from 1929 to 1964, and in that was involved the farm angle, mining, transportation, all of the different segments that make up the economy as a whole. Mr. White for years has been closely associated with nonferrous metal mining.

Now to illustrate it very simply and to illustrate the importance of this farm thing, in 1929 to 1933, for every dollar that we permitted of the value of our farm production to drop below the year 1929, we lost $7 in national income.

Now, in the 12 years, 1930 to 1941, because we did not restore the value of our farm production, we lost $563 billion of income, or roughly, seven times the lower rate of farm income as compared to 1929.

At the time we absorbed this loss by doing without $563 billion of goods and services that this amount of money would have purchased.

Then, from 1940 to 1943, our farm price returned to the 1925–29 price level.

Mr. Purcell. I wanted to know who your clients were. I think that you said your organization consisted of you and Mr. White and Mr. Huff.

Mr. Wilken. Yes, that is right. We have consulted with the independent bankers' organizations; we have consulted with the national farm organizations, and other groups, but they contribute nothing in the way of funds toward the work of the foundation.

Mr. Purcell. All right. Thank you very much. We appreciate your information and, certianly, your interest in the farmers' situation.

This concludes our witness list for today. This committee will have one other day of meeting, next Wednesday, which will be the first day we are able to have a hearing room, and the meeting will be at 10 o'clock in the morning. We have invited labor organizations that work in the area of food processing, handling, and selling to appear next Wednesday.

The subcommittee will stand in recess until Wednesday of next week, at 10 o'clock in the morning.

(Whereupon at 12 noon, a recess was taken, to reconvene at 10 a.m., Wednesday, August 17, 1966.)

BREAD PRICES

WEDNESDAY, AUGUST 17, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 1301, Longworth House Office Building, Hon. Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell (presiding), Foley, Redlin, Bandstra, Dague, Belcher, Dole, and Hansen of Idaho.

Also present: Betty Prezioso, staff; and Francis M. LeMay, consultant.

Mr. PURCELL (presiding). The subcommittee will please be in order. We will call the representative of the American Bakery and Confectionery Workers' International Union, AFL–CIO, Mr. John DeConcini, executive vice president.

We will be glad to hear from you now.

STATEMENT OF JOHN DE CONCINI, EXECUTIVE VICE PRESIDENT, ACCOMPANIED BY ALBERT K. HERLING, DIRECTOR OF PUBLIC RELATIONS, AMERICAN BAKERY AND CONFECTIONERY WORKERS' INTERNATIONAL UNION, AFL–CIO, WASHINGTON, D.C.

Mr. DECONCINI. Mr. Chairman, and members of the subcommittee. I have a brief statement I would like to read to the subcommittee.

My name is John DeConcini. I am executive vice president of the American Bakery and Confectionery Workers' International Union, AFL–CIO, with headquarters at 1120 Connecticut Avenue NW., Washington, D.C.

May I first express my appreciation, Mr. Chairman, for the opportunity to appear before your subcommittee and supply whatever information we may have in connection with your very important inquiry into the increase in the price of bread.

There are three factors which we always try to keep before us when we deal, as representatives of the workers, with management:

(1) The needs of the workers, in terms of wages, working conditions, and so forth, and the contribution which they make, as producers, to the enterprise;

(2) The capacity of the enterprise—its economic health and its ability to remain in a competitive position with the other managements with which we also deal; and

(3) The availability, through reasonable prices, as far as we can exercise any control, of the product our workers produce to the consumer.

Admittedly, labor costs must enter the picture as far as the wholesaler's price to the retailer is concerned. We, however, exercise no control over management's decisions which directly affect the price to the consumer.

Let us look at some relevant facts, taking 1958 as the starting period. The population of the country continued to increase in the period from 1958 through 1965. At the same time the production of bread also increased in this same period but the number of production workers suffered a sharp drop. In 1958, there were 143,900 production workers engaged in producing bread, cake, and other perishable bakery products, while in 1965, according to the Department of Labor, the number of production workers had declined to 128,700, a reduction in the number of production workers of 10.5 percent. ("Employment and Earnings Situation for the United States, 1909–65"—issued December 1965, bulletin 1312–13, U.S. Department of Labor, p. 393.)

According to a study prepared, for the President's Committee on Labor-Management Policy on "Technological Trends in 36 Major American Industries," by the Bureau of Labor Statistics, Office of Productivity and Technological Developments, dated March 1964, the number of production workers between 1957 and 1962 had shown an average annual percentage decline of 1.8. The figures I presented just a moment ago, indicates that the rate of decline continued.

The same study, prepared for the President's Committee on Labor-Management Policy, shows that while the number and percentage of production workers was undergoing this steady decline, the data on output, indicated a very sharp increase. This figure, which we may refer to as a productivity figure, indicated that in the period between 1957 and 1962, the average annual productivity increase for the baking industry was 2.4 percent.

While we have no later output figures than those I have just presented, our own experience indicates that the percentage of productivity has increased remarkably. For example, within the past 4 years, there were 5,802 jobs lost by our members alone as a result of 227 plant and shop closings. We have no records of the closings of other plants or shops which were either nonunion or had contractual relationships with other unions. And still production continued to climb.

Still another factor should be mentioned. The technological advances in the industry, including but not exclusively confined to automation, is daily making its inroads on the number of jobs and job opportunities in the baking industry.

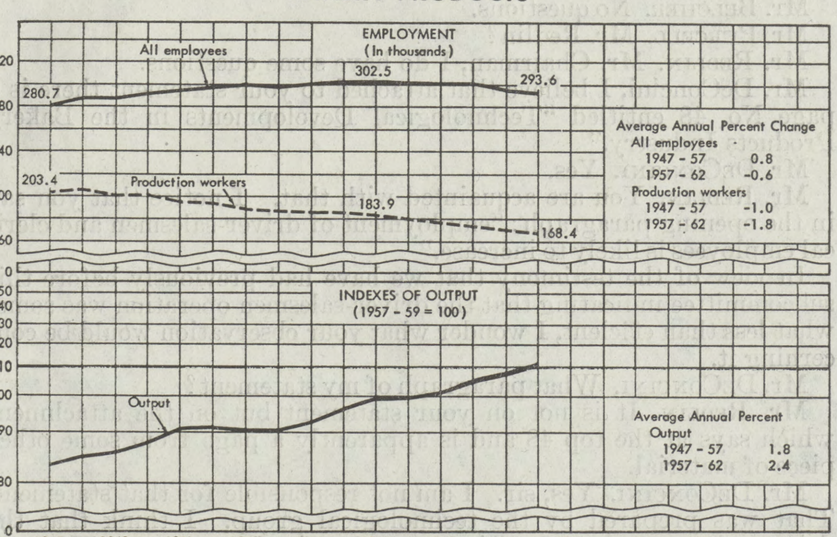
Let me assure you that bakery workers do not get rich. Wages in the industry, including wage increases, have just about kept pace with increased productivity and the increased cost of living. It is our contention that the percentage cost of production has remained relatively stable through use of technological change. This is most obviously seen in the case of the more aggressive companies, those that have pushed forward their programs of technological advance, including automation. In one or two outstanding cases production has even been programed on computers, thus permitting 7-day-a-week production, day and night. In many instances, the wage increases have nowhere equaled the increase of productivity and the consequent lowering of the union production cost.

I do no know what more I can add to what already has been said. If there is any further data available—and I wish to point out that we had very little time to prepare for this hearing. This is not stated as a complaint, but simply to state a fact—we will be pleased to act as quickly as possible to supply it. Meanwhile, I will try to answer any questions you may have.

Again, I wish to thank the Honorable Mr. Purcell for his invitation and for the opportunity to appear before you.

(The chart entitled "Bakery Products" and excerpt entitled "Technological Developments in the Bakery Products Industry" follow:)

BAKERY PRODUCTS



Source: Data on output, Federal Reserve Board.

TECHNOLOGICAL DEVELOPMENTS IN THE BAKERY PRODUCTS INDUSTRY

Outlook.—Faster equipment and methods, new preservation techniques, and greater standardization of products may result in a reduction in labor requirements during the remainder of the 1960's. The costs of modernization may cause substantial consolidation of small bakeries, with some resulting reduction in employment. Because of expected slow growth of consumption, production worker employment is expected to continue to decline; employment of driver salesmen and clerical employees is likely to increase.

Material handling.—Most manual labor in handling incoming materials has been eliminated by mechanized delivery in bulk form instead of individual bags. Bulk handling of ingredients could be expanded to include shortenings (to be handled as liquid oils). Multistation loading platforms that can service 20 trucks at a time, automatic panners and depanners, automatic over feeders, and automatic wrapping equipment have been introduced.

Automation and speedup.—More standardization may be necessary to gain greater automation. Cooling of bread, slicing and wrapping, and movement of products from wrapping machine to the display racks are areas being given increased attention for speed-up. Reduction in baking time in some product lines may be possible. Continuous mixing units have increased bread output by about 1,000 pounds per man-hour.

Product development.—Blast freezing of cakes at —40°F and shipping and storage in retailer's freezers are recent innovations. Advantages are preservation of original flavor, less returned goods, elimination of overtime, increased output per man-hour, and more efficient scheduling. One line item can now be manufactured for several days supply, thereby eliminating several varieties in each day's production. By freezing traditional products, small shops may achieve a better competitive position. Freezing may be extended to non-bakery products such as puddings, pastries with fruit, and gelatins.

Computers.—One bakery expects to use a computer to monitor bulk storage and process applications, control batch blending and mixing, and for random inventory control of palletized products. However, an operator will be necessary to start the pumps, adjust the valves, dial the desired mix, and add minor ingredients such as salt, yeast, and flavoring. This computer, programed initially for 25 products, has a total capacity of 100 products.

Mr. PURCELL. Do you have any questions, Mr. Belcher?

Mr. BELCHER. No questions.

Mr. PURCELL. Mr. Redlin?

Mr. REDLIN. Mr. Chairman, I do have some questions.

Mr. DeConcini, I believe that attached to your statement there is a page No. 48 entitled "Technological Developments in the Bakery Products Industry."

Mr. DECONCINI. Yes.

Mr. REDLIN. You are acquainted with that. I notice that you say in the opening paragraph: "employment of driver-salesmen and clerical employees is likely to increase."

In view of the testimony that we have had previously before this subcommittee indicating that the driver-salesmen operation was somewhat less than efficient, I wonder what your observation would be concerning it.

Mr. DECONCINI. What paragraph of my statement?

Mr. REDLIN. It is not on your statement but on the attachment which says at the top 48 and is apparently a page from some other piece of material.

Mr. DECONCINI. Yes, sir. I am not responsible for that statement. That was prepared by the technological group. I think that the driver-salesmen are undergoing some drastic changes, too. They are not employing drivers to my knowledge. We know that there have been some changes in what they call "dropoffs" or the dropping off of huge truckloads at the supermarkets, instead of the house-to-house deliveries that are going out altogether.

Mr. REDLIN. Your observation is that you do not believe that the driver-salesmen number is increasing?

Mr. DECONCINI. That is not our experience, but as I say, they would be much better qualified to testify to that.

Mr. REDLIN. Thank you.

One other point. I notice in the material that you have that it describes the fact that those who labor in the handling of incoming materials have been limited by mechanized delivery in the bulk form instead of in individual packages. This is definitely on the move, you will agree?

Mr. DECONCINI. That has taken place in practically all of the large producers. They have the bulk handling right from the tank cars right into the bakery.

Mr. REDLIN. Right off of the rail?

Mr. DECONCINI. Right off of the rail; yes, sir, right into the bakery. Such as shortening and flour, all pumped right into the machines to make the bread.

Mr. REDLIN. Thank you.

Mr. PURCELL. Let me first say that we appreciate your coming before us, Mr. DeConcini. As you have recognized in your statement, there has been considerable concern as to this recent increase in the price of bread.

I take it that the import of your statement is that gradually there has been an increase in the wages being paid to the laborer in the baking industry, as I understand that there has been in every other industry.

You have certainly indicated, and I agree with you, that the increase in the price of labor to the bakers is not out of line with the increased pay in other segments of industry. I think we are all concerned, more or less, with the fact that the cost of everything is going up. I have some figures in front of me, contained in a chart which was prepared by the Department of Agriculture, showing the realized returns per hour for all farm labor and management, 1947 to 1965. It shows the average hourly earnings of employees in one column, including the food marketing firms, such as bakeries and the like. This shows that in 1958 the realized return per hour for all farm labor and management was 97 cents per hour, and that the average hourly earnings for employees in the food marketing firms was $1.82 an hour, and this shows that for 1965 farm labor and management per hour realized a return of $1.25, and that the average hourly earnings of the employees in the marketing firms was $2.30 an hour. There had been a gradual increase during the years, bringing it up to that point.

I do not mean by my statement to indicate that I think that every workman ought not to be paid a good wage. I do think that you and I can agree that even on the basis of the 1965 figures for the farm labor and management of $1.25 an hour, they are not being overpaid as far as earnings are concerned. Are those figures correct in your judgment?

Mr. DECONCINI. I do not think so. I do not know where they got the $2.30 an hour increase. A lot of our employees do not make that amount.

Mr. PURCELL. As I said, this is an average. I do not know where they get them either.

Mr. DECONCINI. I would say that a very big percentage of our members do not make $2.30 an hour.

Mr. PURCELL. This is an average hourly earning of the employees in the food marketing firms. I am sure that in the baking industry there would be a figure that went in to make up this average. At any rate, the farm labor and management increase has not been such as to get him rich very fast, and I do not think, for that matter, that the baking industry employees have been in that situation either.

I just wanted to have you comment on that and have the record disclose what these two figures are.

Is there anything else that you would like to say, sir?

Mr. DECONCINI. No. We thank you, Mr. Chairman.

Mr. PURCELL. We thank you very much for being here.

We will now call on Mr. E. W. Morrison of the Morrison Milling Co. of Denton, Tex.

We will be glad to hear from you now, Mr. Morrison.

STATEMENT OF E. W. MORRISON, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, THE MORRISON MILLING CO., DENTON, TEX.

Mr. MORRISON. Mr. Chairman, I shall begin my statement today by expressing my sincere appreciation for the privilege of appearing as a member of the flour milling industry to discuss a situation which is of utmost importance to all flour millers, and of greatest importance to the millers of small capacity independently owned.

Section I: My name is E. Walter Morrison, Sr. I am the controlling stockholder, chairman of the board, and chief executive officer. My son, Edward W. Morrison, Jr., was elected president and chief executive officer, June 15, 1966, at my request. Three Morrison families own 71.87 percent of all outstanding stock. I am a director of the Millers National Federation, also of the American Corn Millers Federation. My experience covers nearly all phases of flour milling. Having had such responsibilities, I am vitally interested in today's proceedings, to which I pledge my best efforts toward finding and removing the principal cause when found. In finding cause and remedy, I hope to be helpful.

Section II: (*a*) The Dallas News, issued August 2, 1966, quoted Mr. Purcell as having said in substance that he has no preconceived conclusions about the justification of recent bread price increases. Nevertheless, if the farmer, baker, or others engaged in the process of converting wheat to bread are responsible, the public has a right to know. I wholeheartedly agree with Mr. Purcell's statement as quoted and shall strive to aid in finding cause and cure.

(*b*) The principal business of the Morrison Milling Co., located in Denton, Tex., is to make and sell wheat flour, corn meal, convenience foods, and their resulting byproducts. I organized our company May 29, 1936. I have been continuously employed in flour milling for 53 years.

Section III: Quoting from the report of the National Commission on Food Marketing—"Food From Farmer to Consumer," June 1966, I find:

(*a*) That more than one-half of the 1,162 flour mills operating in 1948 had closed by 1964;

(*b*) That in 1964, 562 flour mills were operating and 270 of the mills operating produced 97 percent of our Nation's total flour production;

(*c*) That in 1965, 20 of our Nation's largest firms accounted for 61.1 percent of our Nation's total flour milling capacity;

(*d*) That in 1960, the 20 largest firms used 22 percent of their flour and mill feeds produced for further processing to make other food produced—named "end items," otherwise "convenience foods," et cetera;

(*e*) That the smallest flour milling plants—under 2,500-hundredweight capacity—had the highest manufacturing costs; that manufacturing costs decreased as plant size increased up to 7,500 hundredweight of daily capacity, and decreased thereafter, as smaller millers enlarged their capacity;

(f) That in 1954–65 millers' profits before taxes averaged 0.22 percent—that is twenty-two one hundredths of 1 percent—of the total sales; that flour mills in the Middle Atlantic region lost money, and in the South Atlantic Regions reported the highest rates of profit before taxes; viz, 5.25 percent of sales;

(*g*) That flour millers' profits from total operations have fluctuated from 1.6 to 2.6 percent of total sales and between 6.3 and 9.7 percent of net worth; and

(*h*) That profit records over a period of years are available only from firms which receive more than one-half their gross income from products other than flour and mill feeds. Their profits as a percentage of total sales in 1964–65 were, after taxes, 2.2 percent versus flour millers' profits of only 0.22 percent before taxes for flour milling operations.

Section IV: When selling flour, it was stated that:

(*a*) Major flour millers negotiate prices with their largest customers;

(*b*) The prices so negotiated are the basis for dealing with other important customers and comparable listed prices for small buyers are posted;

(*c*) The Bell Weather customers require millers to tailormake flour to rigid specifications needed in their bakeries, and to guarantee the flour-baking performance in their ovens; and

(*d*) Flour millers have to compete in prices, quality, and services provided their customers.

Section V: (*a*) I shall begin my effort to answer by stating that I find no evidence supporting a conclusion that either the wheat farmer, or the bread baker can be factually or equitably charged with creating the causes which have made bread and flour price increases vitally necessary to maintain the business lives of many firms active in these fields. What cause for sharply increased bread prices is indicated by facts found?

(*b*) My conclusion is that the imperative need for increase in bread prices is caused by administrative actions of USDA, by USDA's issuance and enforcement of regulations which are not and never were in accord with the language of the law; the financial burdens mostly greatly imposed on small millers thereby; the imposition of a processing tax to the wheat chosen to be used for processing to make human food products therefrom; the extension of such tax to the screenings which millers are required by Federal food and drug laws and regulations to remove before processing to make a food product can legally begin; the application of said tax to the animal feeds, wheat bran, shorts, and germ which are separated and are kept separated from flour during the milling process, and which byproducts are required to be removed from white flour by definitions of white flour specifications issued by the Food and Drug Department. All of above being enforced by USDA administrators, yet the law provides otherwise, and I quote from section 379d(b), Public Law 88–297, enacted April 11, 1964, which reads in part:

During any marketing year for which a wheat marketing allocation program is in effect, (i) all persons engaged in the processing of wheat into food products shall, prior to marketing any such food product or removing such food product for sale or consumption, acquire domestic marketing certificates equivalent to the number of bushels of wheat contained in such product, and (ii) all persons exporting wheat shall, prior to such export, acquire export marketing certificates equivalent to the number of bushels so exported.

Section IX: (*a*) As you gentlemen know, USDA's application of a processing tax to the production of wheat flour has been challenged in the courts by a group of millers, of which the Morrison Milling Co. is one.

(*b*) We take the position that all laws should say what they mean and mean what they say; that Congress alone is constitutionally empowered to write law; that administrative bodies have no constitutional right or authority to issue and enforce regulations which are not in accord with the clearly expressed language of the law. By so doing, USDA has placed the burden of subsidizing farmer products on the processors of wheat for making human foods therefrom.

Section X: (*a*) The measure of flour production from wheat is the "hundredweight." It is impossible to make the wheat contents of a 100-pound bag of flour to be more than 100 pounds, even if all contents were wheat products, which they rarely are, especially when self-rising, bleached, phosphated, or other various flour mixes are made.

(*b*) When issuing its regulations, the Department of Agriculture relies on section 379(f) which appears only in Public Law 87-703, enacted September 27, 1962, which reads:

> The Secretary shall establish conversion factors which shall be used to determine the amount of wheat contained in any food product. The conversion factor for any such food shall be determined upon the basis of the wheat used in the manufacture of such product.

(*c*) The 1964 legislation was enacted hurriedly, because the farmer-producers had rejected the 1962 law. Nevertheless, the Department of Agriculture administrators interpreted section 379(f) to be applicable even when it did not appear in the 1964 law, and insisted on interpreting its second sentence to contradict its first sentence. USDA issued regulations ruling that marketing certificates must be acquired to cover the wheat used to make the flour, said regulations creating conversion factors, which when first applied were 2.283 bushels per hundredweight of flour processed. After July 1, 1966, marketing certificate conversion factors required 2.3 bushels of wheat per hundredweight of flour produced to deterinme the wheat content thereof. 2.3 percent of a 60-pound bushel equals 138 pounds.

I want to say, as an aside that from the beginning, the Morrison Milling Co. has paid its processing taxes on the basis of the disappearance of wheat. We have not used the certificate practice, but, in any event, the reason for it is this: We do an efficient job, and we get more flour out of the wheat than many mills do.

Section XI: (*a*) When such regulations were first presented, flour millers challenged this regulation immediately. USDA administrators refused to change their interpretations despite their knowledge that approximately 37 to 41 pounds per hundredweight of flour manufactured is removed from wheat chosen for processing by the precleaning which must be accomplished before food processing therefrom can legally begin.

(*b*) The screenings consist of weed seeds, damaged wheats, insect fragments, chaff, straw and other grains, all of which food and drug laws and regulations require to be removed before human food product processing begins. During the cleaning processes, rocks, metal fragments, and other wastes, valueless and useless, are removed.

(c) Screenings removed are definitely unfit for human consumption and historically have been blended with the wheat germ, bran coat, and cellulose cell walls within the wheat berry which encloses the starch and proteins composing flour and are removed to comply with the Food and Drug Administration's definitions for various types and grades of white flour and to comply with customers demands.

(d) The bran coat, germ and cell walls removed in the milling process are named "bran" and "shorts." These byproducts of flour milling have, in largest volume, historically been blended with the screenings removed in the precleaning process, and sold as animal feeds, plainly labeled and taxed, and must meet the legal requirements of the State where consumed.

(e) When milling whole wheat flour, the cleaned bran and shorts are not removed but are included in the end product. The precleaning process on the wheat used for manufacture nevertheless continues, and the screenings are removed in the same measure as if nothing but white flour was being made.

Section XII: (a) Amendment No. 777.2(b)(7)(i) established January 7, 1966, exempts one-ash-clear flour from marketing certificate requirements. One-ash-clear flours are and always have been portions of the very last flour streams obtained in the milling process and in largest volume have been blended with better flour grades and sold for human consumption.

(b) Regulation No. 777.3 states that no byproduct which has ever been a portion of any flour stream shall be exempt from marketing certificate requirements. Bran and shorts have never been any portion of any flour stream. On the contrary, they are removed from the wheat being milled and are carefully kept separated from flour streams and are sold as animal feeds. Yet the Morrison Milling Co. has been required to pay processing tax thereon under protest.

How can any administrative body or court reasonable or legally issue a regulation which is contrary to the specifically stated wording of the law?

Section XIII: (a) The name "marketing certificate" is pure fiction. I have never seen one, nor has any other miller or wheat farmer whom I have questioned.

(b) The first agricultural legislation was enacted to subsidize wheat farmers long prior to 1947–48–49. The cost of subsidies was borne by the Federal Government and paid from the Nation's Treasury. Prices were supported by nonrecourse loan arrangements; public storage was provided; the Government guaranteed against losses; and paid all costs of wheat and storage when the loan was not redeemed.

(c) For Denton County, Tex., support price loans are as follows, as contained in the following tabulation:

	Support loan in dollars per bushel guaranteed	Processing tax borne by flour millers (per bushel)
Crop year—		
1948	1.99	None
1949	1.97	None
1963	1.88	None
1964	1.38	$0.70
1965	1.34	.75
1966	1.34	.75

I call your attention to the fact that the support loan was $1.98. They could put their wheat into storage if they pleased, and they could give a nonrecourse note on it, and if they sold it at a profit, at a higher figure, they could pay the cost, but if they could not, the Government took it over and bore all of the cost, and they were assured and guaranteed a return of $1.98. I am a farmer as well as a miller, and I know. I own a farm that produces wheat.

As noted, the next year, they reduced the bread tax from $1.88 to $1.38 cent; they took 50 cents per bushel off of the support price but added 70 cents per bushel as a tax to the miller. And yet they call it a tax. It is not a tax when they only pay it on a small portion of it.

We flour millers, for the period July 1, 1964, to August 17, 1966, inclusive, have borne the total cost of subsidizing the wheat farmer at all price levels even when the market price was above the support levels.

(*d*) I consider it to be a wicked law which burdens any industry with taxation to subsidize any group of suppliers. If our Government decides that the Nation's best interests require subsidies, then the costs thereof should be borne by the Government, from the Nation's Treasury. Burdening millers with the processing tax which the Government thinks should be paid to subsidize farmers has created greatly higher costs for both than would have been incurred had payments been made direct from the Nation's Treasury.

I have them attached. You might want to look at them, because they change frequently.

(*e*) The millers have to borrow more money and hire more people to study the Government's regulations and see that they are properly applied and that the processing taxes are paid on or before the 16th of each month. A payment to the U.S. Government is rarely, if ever, an asset against which money can be borrowed. My letter to Mr. John A. Schnittker dated January 5, 1966, is attached.

Attached, you will find copies of a letter from Mr. John A. Schnittker dated September 8, 1965, and my reply of January 5, 1966, together with statistics covering the Morrison Milling Co.'s pertinent cost factors for each year: July 1, 1962, through June 30, 1963; July 1, 1963, through June 30, 1964; July 1, 1964, through June 30, 1965; July 1, 1965, through June 30, 1966.

I trust you will find these attachments useful. They are factual.

If I may be permitted to do so, I would like to read the exchange of letters, the one from Mr. Schnittker of the Department of Agriculture and my reply thereto. This came along months ago. I have corresponded with Members of the Congress and have sent copies of this to the President, and here is the letter which I received from Mr. Schnittker under date of September 8, 1965.

Mr. E. W. Morrison, Sr.,
President, the Morrison Milling Co.,
Denton, Tex.

Dear Mr. Morrison: President Johnson has asked me to reply to your letter of August 5, 1965, enclosing a copy of your letter to each member of the House of Representatives concerning the method of financing the wheat certificate program under H.R. 9811.

It is the opinion of the Department that the wheat marketing certificate program as authorized by existing law and as it would be amended by the bill under consideration in Congress is a valid exercise of the constitutional authority of the Federal Government. The program as stated in section 379(a) of the Agri-

cultural Adjustment Act of 1938, as amended, is designed to regulate the price of wheat used for domestic food in order to assist wheat producers in obtaining fair prices.

The statute governing the wheat marketing certificate program for 1964 and 1965 provides for the issuance of domestic certificates to producers based on the amount of wheat used for food in the United States. The cost of these certificates is financed through requirements in the statute for the acquisition of domestic certificates by processors of food products. The statute also provides that the processors shall acquire domestic certificates equivalent to the number of bushels of wheat contained in the food products and defines the amount of wheat contained in the food products as the weight of wheat used in manufacturing such products.

The first statement made is incorrect. The second one—I cannot read my own writing there, so I cannot read that to you.

As you are aware, in the case filed by Morrison Milling Company, et al., against the Secretary and Commodity Credit Corporation in the United States District Court for the District of Columbia, the court upheld the validity of the Secretary's regulations implementing the statute governing the wheat marketing allocation program. Moreover, the House Committee on Agriculture, in consideration of the wheat title of H.R. 9811, which extends the current program, said in its recent report to the Congress:

"Because of the critical importance of this matter to the whole statutory framework of the certificate program, the Committee gave consideration to amending the language of the statute to make it doubly clear that the Congress intends that the processor be required to purchase certificates equivalent to the total number of bushels of wheat used in processing flour and other food products without deduction for the by-products and wastes resulting in processing of flour or other food product, and not merely on the net weight of the flour or other food product, as contended by the processors. However, the Committee believes that no amendment is needed. The present language of the statute in the opinion of the Committee clearly expresses the congressional intention that the processor be required to purchase certificates equivalent to the total number of bushels of wheat used in processing flour and other food products."

I might say that the judge who made that judgment in the first hearing—and, by the way, I might say that the millers who brought that suit filed a plea, and after it was held for approximately 3 months, the first judge disqualified himself because he held stock in the Quaker Oats Co. and it was assigned to another judge, if you please, and he held it for a month or thereabouts, and he decided that he should disqualify himself, because he had formerly been a Representative from the State of Minnesota and was friendly with the appellants. And the judge at that time, who had never been a judge, was a lawyer operating, I guess, very profitably, so far as that is concerned, but in late April 1965, he was appointed to the court and this was his first case. He previously never had acted as a judge in any matter.

Now, continuing with Mr. Schnittker's letter:

The processors are in no different situation in 1964 and 1965 under the wheat certificate program than if wheat had been supported through loans and purchases at $2 per bushel. The wheat title contained in H.R. 9811, as passed by the House of Representatives, would authorize continuation of the voluntary wheat certificate program for another four years. It would be essentially the same program as in 1964 and 1965 with a few exceptions. Under the bill, the value of domestic certificates issued to producers would be increased to reflect a support price for wheat for domestic food use of about $2.50 per bushel. The wheat title contained in H.R. 9811, as passed by the House of Representatives, would authorize continuation of the voluntary wheat certificate program for another four years. It would be essentially the same program as in 1964 and 1965 with a few exceptions. Under the bill, the value of domestic certificates issued to producers would be increased to reflect a support price for wheat for domestic food use of about $2.50 per bushel, thereby adding to wheat farmer's income. The portion of the value of certificates which results in farmers receiving in excess of $2 a bushel on wheat accompanied by domestic certificates would not be financed by processors. Thus, the cost of wheat to millers would be about the same as in 1964 and 1965.

My comment there is: "Yes, we are. Bank credit is available to cover grain purchases but not wheat."

Continuing with the letter:

The certificate program has not changed the marketing and merchandising pattern for wheat. Price relationships have not changed and wheat will be available as usual on a cost basis equitable to all mills, regardless of size, and the additional income from wheat will enable wheat farmers to share a little more equitably in the national expanding economy.

Sincerely yours,

(Signed) JOHN A. SCHNITTKER, *Under Secretary.*

Now, attached thereto is my own letter, dated January 5, 1966, which I want to read to you and to say again that it is factual.

MR. JOHN A. SCHNITTKER,
Under Secretary, Department of Agriculture,
Washington, D.C.

DEAR MR. SCHNITTKER: Your letter of September 8 was received. We greatly appreciate President Johnson's request that you reply to my letter of August 5, with which I attached xerox copy of my letter of July 31, addressed to all Members of the House of Representatives. From your reply, it appears that we did not make clear the basis for our opposition to the Department of Agriculture's arbitrary regulations for administering the Agricultural Act of 1964, and the Marketing Certificate Plan.

We oppose the Marketing Certificate Plan because of increased costs which the Department of Agriculture must bear for its administration; and the greater financial burdens which flour millers who make the human food product "flour" are required to bear, because USDA regulations do not accord with the language of the law. We covered these phases in our letter of July 31 to Members of Congress.

We find inaccurate statements in your reply of September 8. Its third paragraph states:

"The statute governing the wheat marketing certificate program for 1964 and 1965 provides for the issuance of domestic certificates to producers based on the amount of wheat used for food in the United States."

This is not the language of the law. We quote:

"Section 379 a(b) * * * (1) all persons engaged in the processing of wheat into food products shall, prior to marketing any such food product or removing such food product for sale or consumption, acquire domestic marketing certificates equivalent to the number of bushels so exported * * *."

The maximum amount of wheat used for food cannot exceed the quantity of wheat which is contained in the food product, made from wheat.

However, the regulations enacted by the Department of Agriculture require flour millers to secure marketing certificates to cover all wheat from which the miller intends to separate the human food "flour"; in the condition wherein such wheat is found when purchased; excluding only the official dockage. Such regulations fail to recognize following facts, viz:

(1) That a bushel of No. 1 Hard Winter Wheat weighs 60 pounds. The measure of flour production is the "hundredweight"; and a 100-pound sack of flour cannot contain more than 100 pounds of wheat; but can and frequently does contain less; because the finished flour often contains additives included to meet consumers' desires, and always contains that portion of tempering wheat that flour millers must add to comply with the Food, Drug and Cosmetic Act and its regulations; which properly require all wheat intended for flour processing to undergo a lengthy and rigid cleaning operation before milling processing to make flour can begin. Some three to five per cent of all wheat purchased is removed in the cleaning operation. These removals are named "screenings".

Moreover, during the milling process, the wheat berry's bran coat and its multitudinous cell walls must be separated from the wheat's flour content, these separations are animal feeds, viz: bran and shorts, and are not fit for human consumption when screenings are included.

After thorough cleaning, the wheat to be milled for making flour must be tempered by the addition of water or steam to toughen the bran coat, thus making possible the removal of the bran coat and the cellulose structures referred to, from the flour content.

The bran and shorts portions of the clean, tempered wheat so removed, are marketed almost exclusively as animal feeds. Included therein are the screenings, scourings, and abrasions which are removed by cleaning operations which precede delivery of wheat to the first break folls; and all aspirations, abrasions, broken and damaged grains, and small quantities of other grains which are unvoidably mixed with wheat by elevator movements of various grains from bin to bin during storage.

You have to remove it to keep it from spoiling.

I trust that you will find useful a copy of "The Flow of Wheat being Cleaned and Prepared for Flour Milling," which is enclosed.

The flour miller cannot afford to waste screenings. He paid good money for them, and after metal and stones are removed, they make good animal feeds, when included in bran and shorts, and sell for about one-half of flour values.

Your letter states:

"The statute also provides that the processors shall acquire domestic certificates equivalent to the number of bushels of wheat contained in the food products and defines the amount of wheat contained in the food product as the weight of wheat used in manufacturing such products."

We find no such definition in either the Food and Agricultural Act of 1962 (which never became effective because of rejection by wheat producers) or in the Agricultural Act of 1964.

We know that USDA frequently quotes Section 379(f) of the 1962 Act as conveying such meaning. USDA's interpretation of the second sentence of said section, if accepted, would directly contradict the first sentence of the section quoted. We quote from Section 379(f), Public Law 87-703:

"The Secretary shall establish conversion factors which shall be used to determine the amount of wheat contained in any food product. The conversion factor for any such food product shall be determined upon the basis of the weight of wheat used in the manufacture of such product."

As stated before, a hundredweight of flour cannot contain more than 100 pounds of wheat, but often contains less because of additives which must be included in flour as it is milled and before it is weighed, in order to satisfy the demands of customers. Finished flour, as it comes off the mill, also includes a substantial portion of the tempering water which must be added, before flour processing begins. Approximately three-fifths of the tempering water added is retained in the finished flour. The only wheat used for manufacturing flour products is contained in the product. The portions separated from the food products during or before the processing are animal feeds, viz: non-food products.

We mailed to all Members of the United States Congress, including President Johnson, copies of our letters dated July 31 and September 4. These letters explained clearly, fundamental facts. I think you will find them interesting, and I know you will find them factual.

We quote from the third paragraph, page 2, of your letter of September 8. "The processors are in no different situation in 1964 and 1965 under the wheat certificate program than if wheat had been supported through loans and purchased at $2 per bushel."

This statement is incorrect.

I have also quoted that before.

It is evident therefrom that you have never been the manager or principal owner of a flour mill. Otherwise, you would know that bank credit required to purchase wheat at market prices is readily obtainable; while credit required to pay processing taxes is not so readily available. Thus, the financial burden thrust upon small flour mill operations is substantial. Moreover, the banks are increasing interest rates, and (as you well know) costs of processors' borrowings are substantially higher.

Why President Johnson or the Department of Agriculture officials can believe that either farmer-wheat producers or processors of wheat to make food products can be benefitted; or the costs of administration by the Department of Agriculture be lessened by Marketing Certificate requirements, is not understandable by me.

The flour miller, under USDA regulations, must pay processing taxes by the 16th of the month which follows the month in which wheat to make human food products is processed. The Department of Agriculture collects the miller's processing tax monthly. The Department pays the farmers once yearly. The interest earned by the USDA between the date of collection from the processor and payment is made to farmer-wheat producers is profit to USDA. Nevertheless, USDA's costs of administration are substantially increased, due to the more numerous employees which USDA must maintain to supervise and administer the Certificate Plan, including costs of printing Marketing Certificates—if any are ever inssued—we have never seen one—whereas, only one group of employees would be required to determine awards earned by wheat growers, and one cash payment of grower benefits yearly would complete all necessary transactions, and eliminate numerous Government employees now required to administer and police the Marketing Certificate Program.

Our letters of July 31 and September 4 make clear these facts:

(1) That USDA Marketing Certificate requirements are not in accord with the law's provisions, and;

(2) That the illegal requirement which makes necessary the procurement of Marketing Certificates covering the bran and shorts, including screenings removed before or during the process of milling flour, imposes burdens upon flour millers, which results in increased flour costs, and must become a tax on our nation's bread, if flour millers survive; and

(3) The screenings, scourings, and abrasions removed by the cleaning operations and which precede flour processing, are unfit for human consumption and can not be legally converted into a human food product. For that reason, they are included in the animal feeds, bran and shorts, which are licensed and registered in the State where consumed, and are packaged, tagged and sold as animal feeds.

These offals are non-human food products, fully in accord with the definition of non-human food products, as appearing in 777.3 Definitions (a) (1), paragraphs (a), (b), (c), and (d) of the Processor Wheat Marketing Certificate Regulations, as reprinted from Federal Register of December 15, 1964 (29 F.R. 17086).

The Department of Agriculture can save the Government unnecessary costs by amending its regulations to accord with the law; and by promptly refunding the processing taxes already collected illegally which cover the animal feeds, bran and shorts. Such actions will extend the business lives of numerous flour mills.

It is wholly inconsistent to eliminate processing tax requirements from clear flour when sold for nonfood usage and require payment of processing taxes to cover the animal feeds, bran and shorts with wheat screenings contained therein.

With due respect, Mr. Schnittler: How can USDA officials so interpret the law and USDA regulations, as quoted from Section 777.3 Definitions, Processor Wheat Marketing Certificate Regulations, reprinted from Federal Register, December 15, 1964, (29 F.R. 17086), paragraph (c) (1), (a) to (d), inclusive?

Nevertheless, at USDA insistence, The Morrison Milling Company has under protest, paid processing taxes covering all mill feeds, bran and shorts, which include screenings, removed in cleaning processes, prior to milling; and USDA has illegally collected from The Morrison Milling Company processing taxes covering the period July 1, 1964 through October 31, 1965.

As you know, The Morrison Milling Company has appealed Judge Cocpran's decision in the United States District Court for the District of Columbia and, if justice prevails, we will win the appeal.

Sincerely yours,

THE MORRISON MILLING CO.
By E. W. MORRISON, Sr., *President*.

It has been heard, and I can say this to you, that that litigation will be appealed to the Supreme Court, if nobody does it but the Morrison Milling Co., because it is right.

I want to refer to the statistics which we have here, and I want to call attention to just one of those. I think you will find this true to the present time, that in the period July 1, 1964, to and through June 30, 1966, the Morrison Milling Co.—by the way, a little concern which had only $68,000 working capital when it got into business in 1929, when it began—has paid $1,510,182—and some odd cents—for processing taxes in that period of time, and of that, at the present time, their legal collections total $403,015, in the same period of time.

I can tell you just this, that if you maintain the kind of policy and the kind of directions that they have at the present time, there will be fewer mills in the United States than there are now.

Thank you, gentlemen, for your attention. I will try to answer any questions which I have not answered in my statements, but I do not know that I can say more than I have already said.

Thank you.

(The statistical table referred to above follows:)

Statistics submitted by E. W. Morrison, Sr., board chairman, the Morrison Milling Co., Denton, Tex.

	2 years preceding processing tax imposition		2 years with processing tax imposed at—	
	July 1, 1962, through June 30, 1963	July 1, 1963, through June 30, 1964	70 cents per bushel July 1, 1964 through June 30, 1965	75 cents per bushel July 1, 1965 through June 30, 1966
Dollar sales per hundredweight flour produced	$6.7140	$6.2352	$6.7994	$6.8688
Cost of wheat ground, per hundredweight flour produced	5.2233	4.7289	3.7301	3.8204
Plus processing tax per hundredweight flour produced	None	None	1.5121	1.6590
Cost of wheat processing tax included per hundredweight flour ground	5.2233	4.7289	5.2322	5.4614
Cost of wheat per bushel ground	2.2950	2.1355	1.6622	1.6855
Plus processing tax on weight of wheat basis	None	None	.6738	.7353
	2.2950	2.1355	2.3360	2.4208
Average price paid to farmer at harvest time	$2.146	$2.020	$1.538	$1.510
Government support price; Denton County, per bushel	$2.08	$1.88	$1.38	$1.34
Total expense per hundredweight of flour produced	$1.452	$1.380	$1.516	$1.478
Interest rate, percent	5.625	5.294	5.47	$6.382
Grain storage income for period	$79.346	$65,943	$38,247	$14,654
Processing tax paid, total paid $1,510,182	None	None	$693,981	$816,201
Millfeeds produced (bran and shorts), hundredweight	175,013	166,258	158,828	174,107
Wheat ground into millfeeds, bushels	291,746	277,152	264,766	290,236
Processing tax for wheat covering animal feeds, bran and shorts per bushel	None	None	$.70	$.75
Total processing tax illegally collected contrary to the laws provisions—see sec. 379d(b) Public Law 88-279, enacted Apr. 11, 1964. Total, $403,013	None	None	$185,336	$217,677
Total sales flour mills operations	None	None	$3,191,508	$3,236,084
Percent of processing tax paid on flour mill sales for each period	None	None	21.74	25.22

Had our company elected to pay processing tax based on conversion factors and applied the conversion factor 2.3, made effective July 1, 1966, to the cost of wheat delivered Denton, Tex., our cost of flour per hundredweight would have been as calculated below:

	Marketing year				For last 3 months: May, June, and July, 1966
	July 1, 1962 through June 30, 1963	July 1, 1963 through June 30, 1964	July 1, 1964 through June 30, 1965	July 1, 1965 through June 30, 1966	
Cost per bushel of wheat delivered Denton, rail or truck	$2.2782	$2.1481	$1.7650	$1.8218	$1.9799
Plus processing tax	0	0	.7000	.7500	.7500
Total	2.2782	2.1481	2.3750	2.5718	2.7299
Value of wheat in flour at conversion of 2.3	5.240	4.941	5.463	5.915	6.278

Mr. PURCELL. Thank you very much, Mr. Morrison.
Are there any questions, Mr. Belcher?
Mr. BELCHER. No questions.
Mr. PURCELL. Are there any questions, Mr. Redlin?
Mr. REDLIN. No questions.
Mr. PURCELL. Are there any questions, Mr. Bandstra?
Mr. BANDSTRA. I have no questions.
Mr. PURCELL. Are there any questions, Mr. Hansen?
Mr. HANSEN. I have no questions.
Mr. MORRISON. Thank you, indeed, Mr. Purcell. I want to express my sincere appreciation for the privilege of appearing here today.
Mr. PURCELL. Thank you very much, Mr. Morrison.
At this time, I will call Mr. Alex C. Caldwell, Administrator of the Commodity Exchange Authority, who is accompanied by Mr. Arthur R. Grosstephan, Deputy Administrator of the Commodity Exchange Authority.

STATEMENT OF ALEX C. CALDWELL, ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY; ACCOMPANIED BY ARTHUR R. GROSSTEPHAN, DEPUTY ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY

Mr. CALDWELL. Mr. Chairman and members of the subcommittee, my name is Alex C. Caldwell, and I have with me Mr. Arthur R. Grosstephan, Deputy Administrator of the Commodity Exchange Authority. We appreciate this opportunity to appear before your subcommittee to discuss trading in commodity futures, particularly wheat.

During recent months, there has been a sharp rise in the price of wheat futures as there has been in the price of cash wheat. The rising prices in both markets can be attributed to the prospects of a smaller supply of wheat this year and a high level of demand. As the Under Secretary of Agriculture pointed out in his recent appearance before this committee, the increase in the price of wheat in recent months accounts for only a fraction of a cent in the retail price of bread, and, therefore, it is clear that only a minor part of the price increases in bread can be attributed to higher wheat prices.

The futures market does not usually establish the price level of the cash commodity. The futures market merely reflects the consensus of buyers and sellers as to what the price of cash wheat will be at some particular point in time based upon anticipated supply and demand conditions.

During recent months, there has been a sharp increase in the amount of speculation in the principal grain markets. The soybean futures market, which has been the most volatile in recent years, has attracted the greatest speculative interest. Excessive speculation in this market has caused wild price gyrations with prices on occasion raising the permissible limit one day and dropping the permissible limit the following day. There has also been extensive speculation in the wheat futures market although the level of speculation has been considerably below that of the soybean market. In the wheat futures market, speculation has caused price gyrations which would not otherwise have occurred and which have lessened the usefulness of the market for hedging and price basing purposes. While speculation has caused what we consider to be undue price fluctuations in the futures market, this speculation does not appear to be a major factor in the level of cash wheat prices.

The only effective curb for excessive speculation in the soybean market and the wheat market is the establishment of higher margins. Since mid-June, the Department has repeatedly urged the Chicago Board of Trade, the principal grain market, to increase margins on soybeans, wheat, and other grains. The exchange has made some token increases in margins, some of which were later rescinded. However, the exchange has not been willing to raise margins to a level which would effectively curb the speculative fever in grain markets.

The Department has long felt that the public interest should be considered in determining the level of margins, and that under conditions where excessive speculation is causing unwarranted price movements margins should be raised. Since there is no authority under the Commodity Exchange Act for the Department to establish minimum margin requirements, the Department has repeatedly asked the Congress to amend the act to provide such authority. Proposed legislation of this type was sent to Congress as early as 1947, and has been urged by the Department at various times since then. Bills were introduced in the 88th Congress which would have granted the Secretary of Agriculture authority to set minimum margin requirements under certain specified conditions. These conditions would include situations under which excessive speculation is causing unwarranted price changes. Similar bills are now pending before the agricultural committees of both the House and the Senate. If the Department had the authority to raise margins on grain futures, it would most certainly have increased margins on soybeans, wheat, and other grains during recent months.

During the course of the hearing, reference has been made to a recent CEA investigation of grain futures trading on the Chicago Board of Trade. It was stated that the CEA investigation revealed price fixing in the Chicago wheat market, and it was inferred that this price fixing had contributed directly to the rise in the price of bread.

The investigation referred to covers job lot trading in all grains on the Chicago Board of Trade. A job lot is a smaller contract, usually calling for 1,000 bushels, as contrasted with a round lot which calls for delivery of 5,000 bushels. The CEA investigation revealed a complete absence of competition in the execution of customers' job lot orders. Although this type of execution worked to the definite disadvantage of commodity customers, it did not involve price fixing. The investigation did not reveal action by any trader or group of group of traders designed to set prices at an artificial level.

The violations of the Commodity Exchange Act disclosed by the investigation are serious. In addition to being a violation of the law, the type of trading disclosed by the investigation is a direct violation of a basic rule of the exchange requiring open and competitive execution of trades. However, it cannot be said that trading in the job lot market affected the price of wheat or the price of bread. Prices of job lot transactions are neither quoted nor disseminated as are the prices of round lot transactions. Consequently, the prices of job lot transactions would have no effect upon cash wheat prices. This does not mean we are unconcerned. We are taking corrective actions, both as to the board of trade and the individual traders concerned. Further, we believe the action of the exchange in ignoring its own rules underscores the need for more effective supervision of trading rules on exchanges than is now the case. The legislation we have suggested to amend the Commodity Exchange Act proposes that the Secretary of Agriculture be given a voice in establishing such trading rules.

The committee's attention has also been called to a 1964 General Accounting Office report which found that the CEA was not making a sufficient number of trade practice investigations. A trade practice investigation is an investigation of the type recently made in the job lot market on the Chicago Board of Trade. The CEA agrees with the General Accounting Office that this type of work should be increased. Consequently, the agency included in its 1967 budget request an additional $146,700 for trade practice investigational work. The agency's request was approved by the Department and the Bureau of the Budget and has received approval of the Appropriations Committees of the House and Senate. With a portion of the additional funds the CEA is making a study to determine the feasibility of conducting trade practice investigations on electronic data processing equipment. Although the study has not been completed, we are optimistic. If this approach is practical, it should make it possible for the agency to make a trade practice investigation on each of the major commodities each year and on each of the minor commodities at least once every 2 years. This will involve the examination of approximately 250,000 to 300,000 transactions as compared with approximately 4,000 transactions which are currently being examined annually. One point should be made very clear, however, that is, that trade practice investigations are designed to disclose such things as noncompetitive trading and the cheating or defrauding of customers. They are not designed to disclose price manipulation, squeezes, or corners, the type of violations which have a serious impact upon prices, both futures and cash.

I would be pleased to answer any questions that the committee may have regarding the futures markets.

Mr. PURCELL. Mr. Redlin, do you have any questions?

Mr. REDLIN. Mr. Caldwell, would you just briefly put into the record what a hedging operation is? Give us an example of how a buyer of grain might hedge a purchase.

Mr. CALDWELL. The person who owns grain can hedge his cash position by making an offsetting sale in the futures market. By doing this, he is protected if the price should move down. He would lose money on his cash transaction but would gain approximately an equivalent amount on his futures market sale.

Mr. REDLIN. Thank you.

I do have one more question.

You said that in a period of market fluctuations such as is going on now, that hedging is less useful. Would you enlarge on that statement?

Mr. CALDWELL. Hedging is based upon the theory that the cash price and the futures price will move approximately equally, and anything that disrupts the futures price, such as excessive speculation destroys this relationship. This means that a person who has hedged may lose more on his cash position than he gains on his futures position, or vice versa.

Mr. REDLIN. In a period of time like this, the present cash market today and the futures market today, there might be a bigger disparity than there otherwise would be?

Mr. CALDWELL. That is right.

Mr. REDLIN. What is the reason for this?

Mr. CALDWELL. During a short period of time, excessive speculation may push the futures price up while the cash price remains stable. To the extent that there is a disparity between the two, the hedging function would be disrupted.

Mr. REDLIN. Are you quite concerned about this situation as it exists today?

Mr. CALDWELL. Indeed, we are.

Mr. REDLIN. You believe that the margin requirements on futures trading should be increased and that this would have a good effect on the present market if you would have that authority?

Mr. CALDWELL. To the extent that these price fluctuations are produced by excessive speculation, I think that higher margins would curtail them.

Mr. REDLIN. Assuming that these price fluctuations are not the cause, but other factors produced this situation, there would still remain this difference between the cash and the futures which you do not believe is to the best interest of the person trying to hedge his operation. What do you do then?

Mr. CALDWELL. If these changes in the futures market price are due to supply and demand, the cash market will catch up with them in time and the problem will settle itself.

Mr. REDLIN. The problem would settle itself in your opinion?

Mr. CALDWELL. Yes.

Mr. REDLIN. If there is not excessive speculation?

Mr. CALDWELL. Yes, sir.

Mr. REDLIN. Thank you.

That is all, Mr. Chairman.

Mr. PURCELL. Mr. Belcher?

Mr. BELCHER. No questions.

Mr. PURCELL. Mr. Bandstra?

Mr. BANDSTRA. I have no questions.

Mr. PURCELL. Mr. Hansen?

Mr. HANSEN. I have no questions.

Mr. PURCELL. Let me put one question to you.

As to the concluding paragraph of your statement where you are talking about the use of investigations and state:

> They are not designed to disclose price manipulation, squeezes, or corners, the type of violations which have a serious impact upon prices, both futures and cash.

Then, I take it from your answer to Mr. Redlin, regarding these higher margin payments—whatever you call it—would tend to solve what you are saying the investigation would not solve?

Mr. CALDWELL. Higher margins would have the effect of lessening the price fluctuations due to excessive speculation. Higher margins would also deter price manipulation if it were occurring. But in this particular period, we have no evidence of price manipulation.

Mr. PURCELL. And your investigation of this entire operation, if it was carried out would be more specific in what areas?

Mr. CALDWELL. In the areas of trade practices, in determining whether the customers' orders are being filled competitively and whether customers are being defrauded in the execution of their orders.

Mr. PURCELL. Is there anything that you think the Congress should do other than favorable consideration of the bill that you have referred to?

Mr. CALDWELL. The biggest problem we have in the Commodity Exchange Authority is lack of authority. If the Congress should see fit to strengthen the act, we could do a much better job of regulating the markets.

Mr. PURCELL. But this bill would not have anything to do with the amount of margins?

Mr. CALDWELL. Yes, it would. This bill would authorize the Secretary of Agriculture, under certain circumstances, to set minimum margin requirements. One of those circumstances would be a situation where excessive speculation is causing undue fluctuation in prices.

Mr. PURCELL. Then, that portion of the bill would tend to have what you feel would be a desirable effect on the market?

Mr. CALDWELL. That is my opinion; yes, sir.

Mr. PURCELL. On the ups and downs of the market?

Mr. CALDWELL. Yes.

Mr. PURCELL. Mr. Bandstra.

Mr. BANDSTRA. I have one question, Mr. Chairman.

You say on page 3 of your statement, Mr. Caldwell:

> The CEA investigation revealed a complete absence of competition in the execution of customers' job lot orders.

I must confess my ignorance on this subject. I have gone to the grain pit and have watched them operate, but I really do not understand it. How do they maneuver this, so that they do eliminate competition on these small, what you call job lot orders?

Mr. CALDWELL. Ordinarily, a customer's buy order, which goes into the exchange, and the customer's sell order, which goes into the market, and would be apt to meet in the pit—the trading pit.

Mr. BANDSTRA. I see.

Mr. CALDWELL. In this particular situation, we found that there was not a single instance during the 1-week period covered by the investigation in which the customer's buy order met a customer's sell order. That meant that a floor trader was on the opposite side of each of these customer transactions. We found that the price advantage went to the floor trader and the price disadvantage went to the customer.

Mr. BANDSTRA. Do you have authority at the present time to correct a situation like that?

Mr. CALDWELL. Yes, we do. We have taken steps to correct the situation in job lots.

Mr. BANDSTRA. What is the attitude of the officials of the Chicago Board of Trade as to that type of conduct?

Mr. CALDWELL. We have brought this matter to the attention of the officials of the board of trade and they have considered action that they should take to restrict or to eliminate this type of trading. They have told us of the various steps that they plan to take. We will be watching those steps to see whether they are, in fact, effective in restoring competition to the market.

Mr. BANDSTRA. Did they take any disciplinary action at all against the people involved?

Mr. CALDWELL. The board of trade did not; no, sir.

Mr. BANDSTRA. That is all. Thank you very much.

Mr. PURCELL. Mr. Redlin.

Mr. REDLIN. Along this same line, Mr. Caldwell, you are talking about job lots. Does that indicate that there are a greater number of people getting into this grain deal operation and that a lot of them deal in smaller quantities? Does it indicate that?

Mr. CALDWELL. The number of people getting into the grain markets is increasing. Job lot trading is, however, only a small part of the total trading, less than 1 percent.

Mr. REDLIN. The increase in speculation then is primarily across the exchange floor in lots of 5,000?

Mr. CALDWELL. Yes.

Mr. REDLIN. This goes through the normal channels of the buyer and the seller appearing on the floor together?

Mr. CALDWELL. Yes, sir.

Mr. REDLIN. May I ask you a few more questions? These are relating to margins. When you are talking about margins, for the record, we are dealing with the amount of money that the buyer must furnish to his agent to cover a purchase. Let us take the example of 5,000 bushels of wheat. You have a certain percentage of that that he must put up in cash, and if the market goes beyond this range, then he is wiped out. That is his tough luck, of course. But does it not indicate that you believe that he should be required to put up more money to consummate that deal. Is that what you are driving at?

Mr. CALDWELL. We believe that he should put up more money.

To make it clear for the record, there are two types of margin: There is an initial margin that the trader must put up when he initially makes the contract; and there is a maintenance margin that he must maintain as long as the contract is open.

At the present time, in wheat, the initial margin is 18 cents per bushel, which is, roughly, 9 percent of the value of the contract. The maintenance margin at the present time is 10 cents per bushel, which is approximately 5 percent of the value of the contract. If the price goes against the trader and his maintenance margin drops below 10 cents then he is called upon for additional margin.

Mr. REDLIN. In order to protect his interest, he must then furnish more money?

Mr. CALDWELL. He will either have to furnish more money or he will be sold out.

Mr. REDLIN. At that point?

Mr. CALDWELL. Yes, sir.

Mr. REDLIN. He will be sold out unless he puts in some more money?

Mr. CALDWELL. That is true.

Mr. REDLIN. That is all.

Mr. PURCELL. Mr. Bandstra.

Mr. BANDSTRA. I have one more question.

There is a bill kicking abound here, Mr. Caldwell, that would eliminate futures trading in potatoes. I have always felt that generally the commodity market plays a very important and substantial role in the orderly marketing of wheat, corn, and soybeans. Is there any particular reason why this same line of reasoning does not apply to the potato producers?

Mr. CALDWELL. The potato producers claim that their objection to the futures trading is primarily that potatoes are a perishable commodity, not a storable commodity in the sense that wheat or corn or cotton is. However, potatoes are storable for a period of time. Maine potatoes that are dug in the fall can be stored up until May or June of the following year. But, basically, that is the distinction that the Maine potato producers make between futures trading in potatoes and futures trading in what they call the more stable commodities.

Mr. BANDSTRA. I understand that.

Let me ask you this question: Is it true that there are no perishable commodities that are presently traded on the futures market?

Mr. CALDWELL. Well, there is futures trading in eggs. That is very perishable as a commodity. And in butter. To an extent, that is a perishable commodity.

Mr. BANDSTRA. So that line of reasoning would not hold up?

Mr. CALDWELL. I think that potatoes are storable for a sufficient period of time to make futures trading practicable, yes.

Mr. BANDSTRA. Do you know of any reason why there should not be futures trading in the potato market?

Mr. CALDWELL. Well, the Department, as you probably know, has taken a neutral position on this particular bill that you are referring to.

Its position, really, is based upon two factors: The Department is not opposing doing away with the futures trading, because the Department knows that potatoes could be marketed without a futures market; but, on the other hand, it is not taking the opposite position, because it realizes that substantial numbers of people in the potato trade are using the futures market.

Mr. BANDSTRA. That is all.

Thank you very much.

Mr. PURCELL. I have one question: In regard to this matter that was called to the attention of the Chicago Board of Trade, as to what steps they contemplated taking, were they in violation of the present law and the rules that govern the activities of this type of trading in wheat?

Mr. CALDWELL. Yes, sir; they were in violation in not requiring competitive execution of these trades.

Mr. PURCELL. How long do they have, then, to talk over what they plan to do?

Mr. CALDWELL. The way that we handled this was that we first brought it to the attention of the exchange so that it could take corrective action. After a period of several weeks the exchange did indicate the action it had taken and various steps it intended to take. Our thought is that we should give the exchange an opportunity to correct this itself. If it does not correct it, then my own personal feeling is that the matter should be referred to the Commodity Exchange Commission with the request that a cease-and-desist order be issued against the exchange.

Mr. PURCELL. What is the reason for this, if this is a violation of the law that affects these transactions, what are they waiting on or for?

Mr. CALDWELL. Well, it takes a little time, of course, for an exchange to move, because they move through a system of committees. They tell us that they have put into effect a program in which their Office of Investigation and Audit will make checks on the job lot market to determine that trading is competitive. If this turns out to be an effective system, it could correct the situation. If it does not, and we intend to make our own investigation to determine whether this is effective or not, if it does not, we will then have to consider action against the exchange.

Mr. PURCELL. When did you determine that the rules and the law had been violated?

Mr. CALDWELL. This was, I think, in June—the early part of June.

Mr. PURCELL. This is the middle of August, and that is more than 2 months then.

Mr. CALDWELL. Yes.

Mr. PURCELL. Have you been continuing your investigation or keeping surveillance of some kind on the activities that are being carried on there?

Mr. CALDWELL. We are keeping a sharp watch on that market. We intend to continue to do so, Mr. Chairman.

Mr. PURCELL. Maybe I do not understand how this works. Are you saying that the law is still being violated and that nothing is being done about it?

Mr. CALDWELL. No, sir; I am not saying that. I think that there has been substantial improvement in the execution of the trades on the job lot market. I would not be in a position to say that today we would be completely satisfied, but I think that, compared with the situation prior to June, the situation now is improved.

Mr. PURCELL. I might say that if it is a bad law, we should change it, but that we should not tolerate trading in the commodity exchange one iota if it is in violation of the law.

Mr. CALDWELL. This is very definitely a violation of the law, but it was our thought that we should give the exchange an opportunity to bring itself into compliance with the law. That is what we are attempting to do.

Mr. PURCELL. When do you think that they will think that they are in compliance with the law?

Mr. CALDWELL. They probably think that they are right now.

Mr. PURCELL. Will you report any further progress on this to the committee?

Mr. CALDWELL. Yes, sir.

Mr. PURCELL. So far as I am personally concerned, yesterday is too late in this situation. I can understand that you should be as reasonable as possible, but please keep us informed on whatever you learn about it.

Mr. CALDWELL. We certainly will.

Mr. Purcell. Whether it is one transaction or a whole bunch of them.

Mr. Caldwell. We will do that, Mr. Chairman.

Mr. Purcell. Mr. Redlin.

Mr. Redlin. I have one more question, if I may.

Did I understand you to say, Mr. Caldwell, that you thought that this job lot operation was being conducted or worked to the disadvantage of the seller?

Mr. Caldwell. It worked to the disadvantage of both the buyer and the seller. It worked to the advantage of the floor traders who were taking the opposite sides of both of these transactions.

Mr. Redlin. Will you go into that a little bit further?

Mr. Caldwell. In other words, the customer who wanted to sell was generally selling at a lower price and the customer who wanted to buy was paying more for his purchase.

Mr. Redlin. Well, then, let us go back to the farmer who has grain to sell. How does this affect him in any way?

Mr. Caldwell. It would not affect the farmer in any way, because, as I mentioned in my statement, these job lot transactions are not quoted and the prices are not disseminated, so they are not used in any way as a basis for pricing cash transactions.

Mr. Redlin. Do they have any effect on reducing the number of transactions that would be taking place on that floor; and that in effect, would have some reflection in the prices, would it not?

Mr. Caldwell. They reduce the transactions to a certain extent, but the volume of this is not sufficient to have any effect upon the producer; no, sir.

Mr. Bandstra. It would affect the farmer, would it not, if this type of thing were actually being used by the farmer on the board of trade?

Mr. Caldwell. If he were doing trading in the job lot market himself, then he would be affected; yes, sir.

Mr. Redlin. This job lot operation takes place between licensed members of this board of trade?

Mr. Caldwell. Yes, sir. The only persons who are eligible to trade on the exchange floor are members of the exchange. All of the transactions are funneled through members.

Mr. Redlin. And all of the transactions of the members ought to be through the process of the exchange on the floor?

Mr. Caldwell. All transactions should be openly and competitively executed.

Mr. Redlin. That is all, thank you.

Mr. Purcell. It is your belief that the law, whatever it is, should be followed?

Mr. Caldwell. It is our belief that any noncompetitive trading is in violation of the law.

Mr. Purcell. In all of these transactions, these job lot transactions, that were involved, does the trader put in his pocket whatever the gap is between what somebody offered to sell for and what somebody bought at?

Mr. Caldwell. That is it; yes, sir.

Mr. Purcell. Be sure to report back to the subcommittee as to the way they are handling these small transactions, will you? Keep carrying on with it.

Mr. CALDWELL. Yes.

Mr. PURCELL. Mr. Bandstra has another question.

Mr. BANDSTRA. Just one more question. I am not on this subcommittee, but I came in to listen to the hearings that were held on the proposed legislation that you referred to in your testimony.

Is it your statement here that if the Congress would pass such a piece of legislation, it would help your agency in its role as a watchdog over the Chicago Board of Trade?

Mr. CALDWELL. There is no question in my mind on that, sir. I think that it would greatly strengthen our hand in our work.

Mr. BANDSTRA. Just for the record, I was sympathetic to the suggestion made, without having studied it in detail. Apparently, the subcommittee has not reported the bill out; is that correct?

Mr. CALDWELL. That is correct.

Mr. BANDSTRA. Thank you very much.

Mr. PURCELL. Mr. Redlin.

Mr. REDLIN. Involved in this, do you have budgetary problems in your agency as to how much of this work you can do to get at this and to prepare your case and to handle the action?

Mr. CALDWELL. I think that we have sufficient funds during this fiscal year to handle the workload we have before us.

Mr. REDLIN. That would include seeing to it, that this particular situation is cleared up?

Mr. CALDWELL. Yes, sir; it would.

Mr. REDLIN. Thank you.

Mr. PURCELL. I take it that your budget situation was in such a shape that you could not do the necessary work until the past 2 years?

Mr. CALDWELL. The problem was this: We long recognized the need for additional trade practice investigational work, and we have been scheduling a number of trade practice investigations over the last 4 or 5 years, but market activities were increasing to such an extent we have had to use our rather limited resources in other areas. This meant that we had to defer the trade practice investigations. The program that we are considering now is to put these investigations on the electronic data processing equipment, and thereby I think we can step up our work in this area immeasurably.

Mr. PURCELL. Again, let us say that we really do appreciate your being here. I can understand what the difficulty has been. I am sure that we all do. We appreciate your being here. Good luck to you in your work.

Mr. CALDWELL. Thank you, Mr. Chairman.

(The following letter was also submitted to the subcommittee:)

AUGUST 16, 1966.

STATEMENT TO THE WHEAT SUBCOMMITTEE OF THE HOUSE AGRICULTURAL COMMITEE OF THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES

The Midcontinent Farmers Association appreciates the invitation of your committee to file a short statement for the record on the subject of the recent bread price hike and its relationship to price paid producers for wheat.

For your information, the Midcontinent Farmers Association is comprised of all the members of the Missouri Farmers Association in Missouri and a number of farmers from surrounding states. Our membership today totals in excess of 150,000.

We in the Midcontinent Farmers Association think that it is of utmost importance for the record to be made crystal clear that farmers, namely the producer and the wheat grower, are not responsible for rising food prices. Farmers continually face this serious problem, as it always seems that the farmer is pictured as the villian who makes all the profits.

Recent statistics show that a loaf of bread, which costs about 22 cents today at the grocery store, brings the farmer only about 3½ cents; however, the grocer gets nearly 4 cents, the baker-wholesaler nearly 12 cents, and the remaining approximately 2½ cents of the entire loaf goes to the miller and for transportation. It is quite obvious from these statistics that if the price of wheat to the farmers was the actual cause of the increase in bread prices, then the farmer in effect would have previously been furnishing the wheat free.

The facts are—one bushel of wheat will produce almost 68½ one pound loaves of bread. In studying the market reports, it would appear that wheat prices in May, June and July range from about 19 cents above the support rate of $1.25 per bushel up to 49 cents per bushel during July. Simple arithmetic would substantiate the fact that although there has been some increase in the price of wheat to the producer, it in no way can be construed to necessitate a 2 to 3 cent increase per loaf in the price of bread.

It is not the intention of the Midcontinent Farmers Association to cast any unkind reflections upon any facet of industry which is engaged in the handling of agricultural products. We do support the proposal made by Senator McGovern that a Senate Agricultural Committee should cause to be made a complete study of this subject.

Again in conclusion, may we state that we ought to make it crystal clear that in our opinion the farmers of the United States are not responsible for these increases.

Very truly yours,

MIDCONTINENT FARMERS ASSOCIATION,
L. C. (CLELL) CARPENTER, *Vice President.*

Mr. PURCELL. This will conclude our hearings for today.

The subcommittee will stand in recess.

(Whereupon, at 11:40 a.m., the subcommittee recessed, sine die.)

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