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PROHIBIT TRADING IN IRISH POTATO FUTURES ON
COMMODITY EXCHANGES

GOVERNMENT

MENTS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING
AND CONSUMER RELATIONS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

SECOND SESSION

ON

H.R. 7287

JANUARY 20, 21, MARCH 16, AND 17, 1972

Serial 92-W

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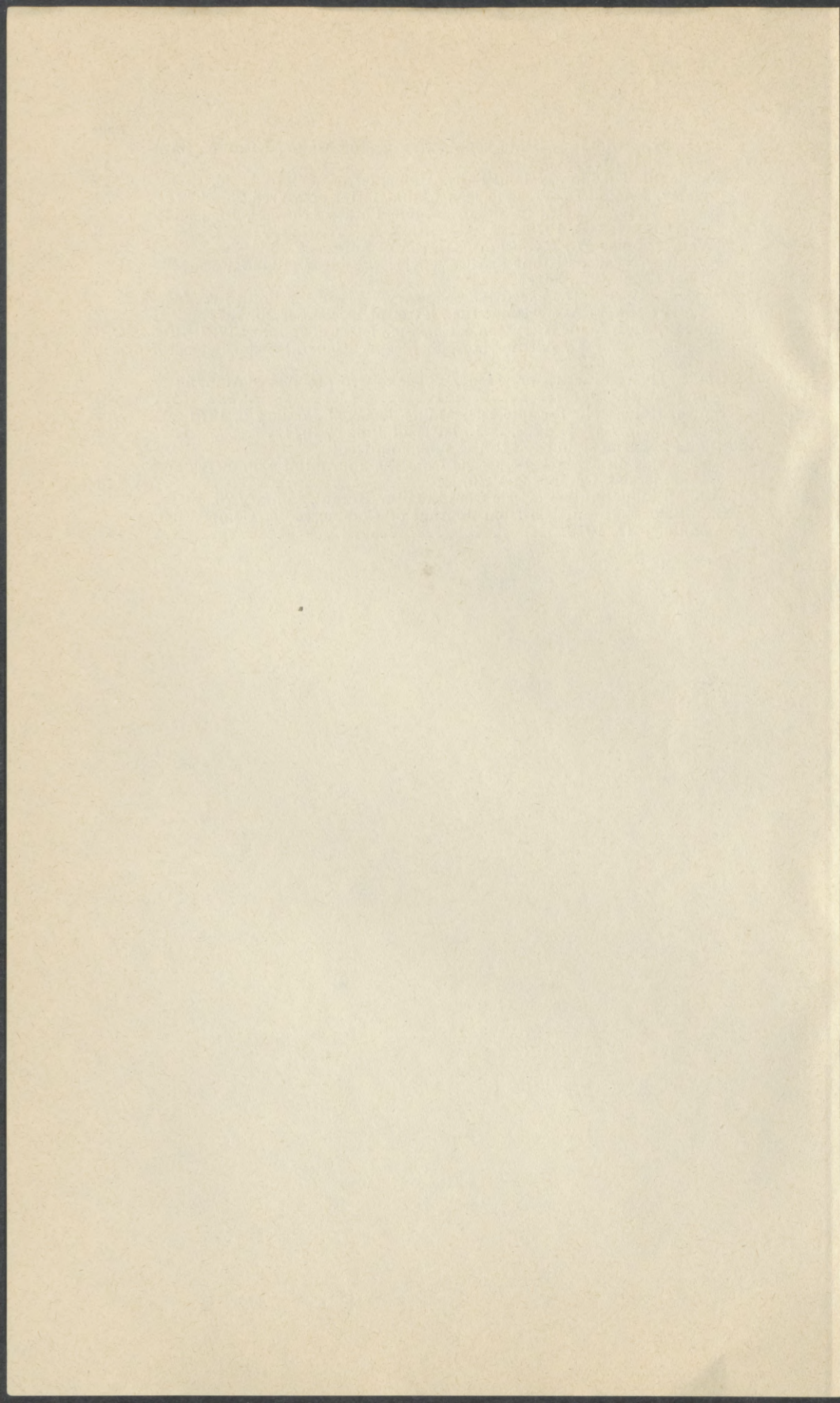
CONTENTS

H.R. 7287, a bill to prohibit trading in Irish potato futures on commodity exchanges.....	Page 1
Statement of:	
Albair, Gilman, vice president, Maine Potato Council.....	58
Amidon, Richard B., on behalf of the Empire State Potato Club, Inc.....	264
Anderson, Merle, president, National Potato Council.....	41
Bagnell, Douglas B., Fairhope, Ala.....	203
Baldwin, Danny, Jackson, Mich.....	67, 221
Barnes, Ronald, Fort Fairfield, Maine.....	69
Brooks, William F., president and general counsel, National Grain Trade Council.....	245
Bull, Chipman C., executive vice president, Maine Potato Council.....	47
Burns, Doyle, executive director, National Potato Council.....	38
Bushman, Richard L., St. Louis, Mo.....	43
Caldwell, Alex C., Administrator, Commodity Exchange Authority, U.S. Department of Agriculture.....	19
Clagett, John W., president, Association of Commodity Exchange Firms, Inc.....	175
Collins, Donald, Caribou, Maine.....	42
Conlin, Donald B., chairman of the board, New York Cotton Exchange.....	29
Curtis, Hon. Kenneth M., Governor of Maine.....	3, 107
Cyr, Raymond, Van Buren, Maine.....	268
Cyr, J. Wilfrid (deceased), Grand Isle, Maine.....	62
Donald, J. Frederick, banker, First National Bank of Aroostook, Houlton, Maine.....	179
Eisensmith, Donald C., Fort Fairfield, Maine.....	197
Ellis, Gerald, buyer and shipper, A. E. Mooers Co., Inc., Houlton, Maine.....	198
Felmlee, Robert, Center, Colo.....	6
Findlen, John, Fort Fairfield, Maine.....	200
Findlen, Tom, Fort Fairfield, Maine.....	189
Frazier, Charles L., director, Washington staff, National Farmers Organization.....	243
Good, Lawrence, Monticello, Maine.....	198
Gray, Roger W., Food Research Institute, Stanford University.....	126
Guy, Norman A., Fort Kent, Maine.....	269
Hathaway, Hon. William D., a Representative in Congress from the State of Maine.....	3, 209
Hieronymus, T. A., professor of agricultural economics, University of Illinois.....	117
Irish, Ferd, Coudersport, Pa.....	263
James, Vernon G., past president, North Carolina Potato Growers & Dealers Association.....	64
Jewel, Al, Monticello, Maine.....	203
Johnston, Merle S., Fort Fairfield, Maine.....	181
Johnston, Peter, Fort Fairfield, Maine.....	201
Jordan, Lyle, Jackson, Mich.....	171
Keenan, Richard T., former manager, Aroostook Federation of Farmers, Caribou, Maine.....	197
Kelley, Hon. Peter S., State representative from Caribou, Maine.....	5
Ketchum, Brian, Mars Hill, Maine.....	199

IV

	Page
Kyros, Hon. Peter N., a Representative in Congress from the State of Maine.....	15
Mahany, Luman P., Easton, Maine.....	264
Maine Potato Council, supplemental statement.....	227
McCaleb, W. F., Jr., executive vice president, Association of Virginia Potato & Vegetable Growers.....	72
McCluskey, George, Monticello, Maine.....	188
McCormick, William J., Chetwynd, Rosemont, Pa.....	216
McIntire, Smith, Perham, Maine.....	213
Melamed, Leo, governor and member, Chicago Mercantile Exchange.....	111
Melvin, Roger A., Monticello, Maine.....	201
Mercker, A. E., consultant to the New York Mercantile Exchange.....	239
Michaud, Clifford, Van Buren, Maine.....	203
Michaud, Robert R., Grand Isle, Maine.....	202
Milliken, Leon E., Beaver Brook Farms, Caribou, Maine.....	267
Mooers, John, Houlton, Maine.....	77
Muskie, Hon. Edmund S., a Senator from the State of Maine.....	4
Ouellette, Norman D., Van Buren, Maine.....	266
Pangburn, Charles, Caribou, Maine.....	268
Parr, Clarence A., Burley, Idaho.....	31
Powers, Mark J., vice president, Chicago Mercantile Exchange.....	120
Rand, L. E., president, L. E. Rand, Inc.....	267
Reardon, Robert, president, F. J. Reardon, Inc.....	131
Roach, Arnold, grower-member, Maine Potato Commission.....	65
Scott, John W., master, National Grange.....	262
Sjostedt, Melford, Stockholm, Maine.....	201
Smith, Bernard R., Mars Hill, Maine.....	266
Smith, Ralph G., Corinna, Maine.....	202
Smith, Stewart, Exeter, Maine.....	193
Solomon, Joseph, Fort Fairfield, Maine.....	265
Tarburton, Jack, Dover, Del.....	74
Turner, Dan, Jr., president, Maine Potato Council.....	79
Turner, Myron, Ashland, Maine.....	192
Vahlsing, Frederick H., Jr., chairman, F. H. Vahlsing, Inc.....	131
Violette, Hon. Elmer K., State senator, Van Buren, Maine.....	105
Watts, Llewellyn, Jr., chairman of the board, New York Mercantile Exchange.....	132
Wilkins, George, executive vice president, Minneapolis Grain Exchange.....	173
Wilson, Henry H., Jr., president, Board of Trade of the City of Chicago.....	257
Wright, Headlee, Monte Vista, Colo.....	57
Correspondence submitted to the subcommittee:	
Andrus, Hon. Cecil D., Governor of Idaho, telegram.....	33
Baxter, John L., Jr., president, Lamb's, letter of January 31, 1972.....	271
Campbell, John C., secretary-treasurer, New Jersey State Potato Association, letter of June 22, 1971.....	9
Carmichael, J. M., Monticello, Maine, letter of January 18, 1972.....	102
Collins, S. W., Caribou, Maine, letter of February 8, 1971.....	269
Doloff, Maynard C., commissioner of agriculture, State of Maine, letter of November 2, 1970.....	5
Erwin, James S., attorney general, State of Maine, letter of October 26, 1970.....	12
Fletcher, W. Beverly, Green Acres Farms, letter of January 14, 1972.....	10
Garrison, E. Reed, administrator, Oregon Potato Commission, letter of January 10, 1972.....	7
Lyng, Richard, Assistant Secretary of Agriculture, letter of Septem- ber 24, 1971, report on H.R. 7287.....	1
McCormick, William J., letter of December 22, 1971.....	12
McNutt, William, secretary, Ohio Potato Growers Association, letter of July 26, 1971.....	8
Mitchell, Joel, president, Malheur Potato Growers Association, letter of January 10, 1972.....	10
Moore, Edd, executive manager, Idaho Growers and Shippers Asso- ciation, Inc., letter.....	37

	Page
Peabody, Arnold S., State senator, Augusta, Maine, letter of October 28, 1970-----	11
Pettengill, Theodore, Island Falls, Maine, letter of October 23, 1970--	11
Quigley, Donald E., Presque Isle, Maine, letter of March 23, 1972---	51
Reed, Walter M., Jr., president, Maine Potato Growers, Inc., letter of December 31, 1970-----	8
Ryan, Thomas W., Ryan Farms, letter of February 26, 1972-----	272
Rydalch, Nyal, assistant executive vice president, Idaho Farm Bureau Federation, letter-----	115
Sargent, Harold D., executive secretary, Wisconsin Potato & Vegetable Growers Association, Inc., letter of December 20, 1971-----	7
Sinclair, Alex, Louis N. Ritten & Co., Inc., letter of January 17, 1972--	270
Sleeper, Nelson F., partner, Joseph Sleeper General Store, letter of March 25, 1972-----	271
Smith, George E., Jr., president, Tululake Growers Association, letter of June 24, 1971-----	10
Smith, Robert N., Presque Isle, Maine, letter of January 6, 1972----	11
Stout, J. B., East Orange, N.J., letter of June 4, 1971-----	12
Additional material submitted to the subcommittee:	
An Assault on a Market—article from the Journal of Commerce and Commercial, October 2, 1970-----	143
Killing Adam Smith—article from the Star-Herald, January 26, 1972--	146
Small Potatoes—article from Journal of Commerce & Commercial, January 18, 1972-----	144



PROHIBIT TRADING IN IRISH POTATO FUTURES

THURSDAY, JANUARY 20, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING AND
CONSUMER RELATIONS 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. Thomas S. Foley (chairman of the subcommittee) presiding.

Present: Representatives Foley, Denholm, Link, Matsunaga, Goodling, and Zwach.

Also present: Representatives Hathaway, Kyros, and Bergland; Lacey C. Sharp, general counsel; Hyde H. Murray, associate counsel; and Christine S. Gallagher, chief clerk.

Mr. FOLEY. The Subcommittee on Domestic Marketing and Consumer Relations will come to order. The subcommittee meets this morning for the consideration of H.R. 7287, to prohibit trading in Irish potato futures on commodity exchanges.

(H.R. 7287, introduced by Mr. Hathaway, and the departmental report, follows:)

[H.R. 7287, 92d Cong., first sess.]

A BILL To prohibit trading in Irish potato futures on commodity exchanges

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) no contract for the sale of Irish potatoes for future delivery shall be made on or subject to the rules of any board of trade in the United States. Notwithstanding the foregoing, such futures trading shall be permitted in the case of any future in which trading has been initiated on or before the date of enactment of this Act, but in no event shall such trading be permitted in the case of any future which would mature more than twelve calendar months after the calendar month in which this Act is enacted. The terms used in this Act shall have the same meaning as when used in the Commodity Exchange Act.

(b) Any person who shall violate the provisions of this section shall be deemed guilty of a misdemeanor and upon conviction thereof be fined not more than \$5,000.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., September 24, 1971.

Hon. W. R. POAGE,
*Chairman, Committee on Agriculture,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in answer to your request for a report on H.R. 7287.

The bill proposes to prohibit trading in Irish potatoes for future delivery on any board of trade in the United States. Most of the futures trading has been in Maine-grown potatoes at New York, although there has been a substantial recent growth in futures trading in Idaho-grown potatoes at Chicago. Therefore, the bill, in effect, will ban futures trading in potatoes from Maine and Idaho.

We recommend that H.R. 7287 not be enacted.

Futures trading, as in many other commodities, fulfills a useful and needed economic function in the marketing of potatoes. The facilities of the exchanges are being used by many growers, cooperatives, shippers, merchants, chainstores, and processors as a means of hedging price risks. The proportion of futures trading in potatoes reported as being used for hedging purposes compares favorably with that of other commodities. Potatoes have been subject to wide price fluctuations. By use of hedging, farmers, dealers, and others in the potato industry have been able to protect themselves from this price variability and able to market potatoes on an economic basis.

The potato futures market also fulfills a vital economic function by furnishing a pricing basis open and known to all. The focusing of supply and demand forces into one place, and the wide dissemination of prices competitively determined in the market, are of benefit to all persons concerned with the marketing of potatoes.

Even though there is a wide variation in potato prices from season to season and within a particular marketing season, price fluctuations do not appear to be increased by futures trading. The prohibition of futures trading would not be expected to eliminate wide price movements which are inherent in the marketing of a commodity having, as do potatoes, an inelastic demand and substantial variations in the size of the crop from year to year.

The banning of futures trading in potatoes will not solve the problems plaguing the potato grower. It will not remove the problems of overproduction, rising production costs, the need to improve merchandising methods to present an attractive product to the consumer, and the pressing competition among potato producing areas for markets.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

RICHARD LYNG,
Assistant Secretary.

Mr. FOLEY. The bill, introduced by the gentleman from Maine, Mr. Hathaway, will be heard in two parts. Today we have a number of witnesses and, subsequently, we shall have additional witnesses scheduled early in March. The committee will, of course, have to adjourn its hearings when the House goes into session at noon. The House meets today to receive the state of the Union message from the President, and following the session this afternoon, the committee will reconvene to hear those witnesses who have not had an opportunity to testify this morning.

The Chair hopes that we shall be able expeditiously to conclude the hearings for those scheduled witnesses today and that it will not be necessary to schedule additional hearings tomorrow, but if any witnesses have not concluded their testimony, the Chair will convene the hearings tomorrow to accommodate any witnesses from out of town.

At this time the Chair is delighted to welcome to the hearing room two of our distinguished colleagues, representing the State of Maine, the Hon. William D. Hathaway, and the Hon. Peter N. Kyros.

I am particularly happy to greet both of our distinguished colleagues and welcome them to the subcommittee. We are anxious to hear your testimony on this legislation.

Mr. Hathaway.

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENT-
ATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. HATHAWAY. Thank you, Mr. Chairman. I certainly appreciate the opportunity to testify here this morning in support of H.R. 7287, the bill which Mr. Kyros and I have introduced to prohibit trading in Irish potatoes for future delivery on any Board of Trade in the United States.

The proposed legislation has been endorsed by Maine's Governor Curtis, the Maine State Legislature, and has received widespread support among people in the potato industry, both in Maine and elsewhere. I would like to insert in the record a statement by the Governor, the text of the joint resolution enacted by the Maine Legislature in February 1971, and numerous letters, telegrams, and statements of support for H.R. 7287.

Mr. FOLEY. Without objection, they will be received.

(The documents above-referred to, follow:)

STATEMENT OF HON. KENNETH M. CURTIS, GOVERNOR OF MAINE

I am presenting this statement in support of H.R. 7287 because of my deep concern for Maine potato growers and the Maine potato industry. The marketing history of fresh Maine potatoes during the past decade has been very erratic, threatening the very life of the industry in our State.

Over the past 10 years a number of bills to eliminate futures trading on commodity exchanges have been introduced in the Congress by members of the Maine delegation of both parties. Continued bipartisan efforts within the State of Maine are evidenced by the unanimous passage on February 25, 1971 of a Memorial to the Congress by the Maine State Legislature.

Maine potato growers, a little over a year ago, voted overwhelmingly in favor of such elimination and many of our key farm leaders have labored for this cause.

The Memorial of the Maine Legislature declared futures trading of Maine potatoes represents "the antithesis of a satisfactory marketing scheme."

I concur in this judgment and am convinced that removal of such trading will benefit Maine's potato industry and the economy of the State as a whole.

STATE OF MAINE

In the Year of Our Lord, One Thousand Nine Hundred and Seventy-One

JOINT RESOLUTION PROPOSING ABOLITION OF FUTURES TRADING OF POTATOES
ON THE NEW YORK MERCANTILE EXCHANGE BY THE CONGRESS
OF THE UNITED STATES

We, your Memorialists, the Senate and House of Representatives of the State of Maine in the One Hundred and Fifth Legislative Session assembled, most respectfully present and petition your Honorable Body as follows:

Whereas, the Constitution of the United States provides that the Congress may regulate commerce among the several states; and

Whereas, Irish potatoes grown in Maine are now traded in futures contracts on the New York Mercantile Exchange, 6 Harrison Street, New York City, N.Y.; and

Whereas, the essential ingredients of a successful potato marketing program include orderly and continuous marketing, minimum short-term price fluctuation and incentives for quality produce; and

Whereas, futures trading of Maine potatoes on the New York Mercantile Exchange represents the antithesis of a satisfactory marketing scheme by encouraging consolidation of sales within the months of March, April and May; maximizing short-term price fluctuation and failing to recognize other than minimal quality; and

Whereas, Maine potato producers, through self-imposed commodity taxes, have for years attempted to improve the handling and quality of the product

reaching consumers and such efforts have been diluted largely by the effects of futures trading of Maine potatoes; and

Whereas the price at which future contracts are bought and sold has a direct and immediate effect on cash prices received by producers for potatoes in Maine and all other areas producing potatoes for market; and

Whereas, experience has proven that futures trading can be carried on without detrimental and depressing effect on price only in the case of those commodities which can be stored for extensive periods of time either within the areas of production or the areas of marketing and distribution; and

Whereas, Irish potatoes are a perishable commodity that do not lend themselves to extended periods of storage, especially following preparation for market; and

Whereas, Irish potatoes historically are one of the most volatile commodities in terms of price range and in degree of sensitivity to myriad market factors, including rumors, speculation, available supply both in storage and in the market places, as well as many others; and

Whereas, many production areas of other states have vehemently registered their opposition to the continued trading of Irish potatoes futures, and producers in Maine, by mail ballot, have continuously voted overwhelmingly in favor of abolishing futures trading in Maine potatoes; and

Whereas, the Congress of the United States has already established a precedent for the action to be proposed by this resolution in the instance of another perishable commodity, namely onions; Now, therefore, be it

Resolved, That we, your Memorialists, recommend that the Congress enact legislation abolishing futures trading in Maine potatoes upon the New York Mercantile Exchange or up any Commodity Exchange; and be it further

Resolved, That the Secretary of State be directed to transmit duly attested copies of this Resolution to the President of the United States, to the Vice President of the United States, to the Speaker of the House of Representatives, to the Chairmen of the Senate and House Committees on Agriculture, to the Secretary of Agriculture, and to the Members of Congress from the State of Maine.

House of Representatives, Read and Adopted February 24, 1971. Sent up for Concurrence.

BERTHA W. JOHNSON,
Clerk.

In Senate Chamber, Read and Adopted in Concurrence, February 25, 1971.

HARRY N. STARBRANCH,
Secretary.

STATEMENT OF HON. EDMUND S. MUSKIE, A U.S. SENATOR FROM THE
STATE OF MAINE

Mr. Chairman, thank you for the opportunity to testify in support of H.R. 7287, introduced by my able colleague from Maine, Congressman Hathaway, which would prohibit the trading in Irish potato futures on commodity exchanges. I have introduced a companion measure in the Senate, S. 1947.

This legislation has been approved by the Senate in the past, and it has also received the support of the House Agriculture Committee. The need for this legislation is greater today than ever before. It is being supported this year not only by growers in Maine but in Idaho as well.

The mechanics of futures trading have discouraged potato farmers from establishing an orderly marketing program. Lack of such a program has resulted in rapid price fluctuations which often do not accurately reflect true supply and demand. Maine potato farmers have consistently voted to end the trading of potato futures. The most recent vote was taken in October, 1970, when 82 % of the farmers opposed futures trading. It is also noteworthy that all major farm organizations, including the National Potato Council, are recorded in support of legislation to end the trading of potato futures.

In behalf of the potato farmers of my state, I urge the Subcommittee to approve the pending legislation. Each year that potato futures trading remains in effect, potato farmers both in Maine and Idaho are penalized. The farmers deserve the help of Congress in achieving the best possible marketing system to maintain a fair price for their product.

Mr. Chairman, I am increasingly concerned about the future health of the family farm in our agricultural economy. It is painful for me to observe the number of farms that are going out of business in my own state, particularly in such important farming areas as Aroostock County. I believe that the family farm is not an obsolete institution but remains a vital necessity in our national life. Our government must take the necessary steps to preserve a strong and healthy agricultural economy, and this means preserving the environment in which the efficient family farm can survive. For the potato farmers of Maine, one small but important step would be passage of H.R. 7287.

Thank you for your courtesy in permitting me to testify.

STATE OF MAINE,
DEPARTMENT OF AGRICULTURE,
Augusta, Maine, November 2, 1970.

MR. ERNEST C. CHASSE,
*President, Maine Potato Council,
Presque Isle, Maine*

DEAR MR. CHASSE: This is in response to your letter of October 22, 1970, requesting my position on the elimination of Maine potato futures trading on the New York Mercantile Exchange.

I note from the results of the Council's recent poll that an overwhelming percentage of the growers responding desire such elimination.

I share the belief of these growers that the Maine potato market would be strengthened were the legislation to prohibit futures tradings.

Sincerely

MAYNARD C. DOLLOFF,
Commissioner.

STATEMENT BY MAINE STATE REPRESENTATIVE PETER S. KELLEY OF
CARIBOU, MAINE

After 21 years or more of actual experience with the operations of the potato futures market, it has become apparent to the great majority of the industry, from growers to retail outlets, that this perishable commodity is not adaptable to futures trading.

Many had hoped that potato futures could become a useful part of the marketing system, as is true of the more storable commodities such as grain and cotton.

Unfortunately and disappointingly, far from promoting orderly marketing, increasing futures activity has been accompanied by increasing demoralization of the industry, erratic price movements unrelated to supply and demand and a steady and drastic deterioration of Maine's position as compared with producing areas not dominated by the futures market.

Until recently, futures trading in potatoes has been limited to Maine. Many of the producing areas in the U.S. do not use futures, so elimination of futures will not have any unfavorable impact on any area. An overwhelming majority of growers and dealers in actual potatoes are strongly opposed to futures trading and have urged its immediate elimination.

Maine's situation as regards both actual price and price stability has deteriorated in relation to competitive areas in futures activity has increased in Maine potatoes. Growers in those areas of the Country where there is no use of futures trading have consistently fared better than those in Maine, and the Maine grower's position has progressively worsened as futures trading has tightened its hold on that market.

The Potato Futures Market is used only to a negligible extent in hedging and much of this is done in a manner damaging to the price structure and to the average grower. Also, futures trading causes confusion, disorder and price gyrations and the futures market is often completely dominated and controlled by speculative interest.

Growers are demoralized and confused by the "antics" of the futures market and this causes failure to make a constructive effort to solve other problems, such as orderly marketing.

For these reasons, I feel that prompt action by this Sub-Committee would substantially improve the ability of the Maine potato farmer to receive a reasonable return on his investment.

STATEMENT OF ROBERT FELMLEE, CENTER, COLO.

My name is Robert Felmlee and I live in Center, Colorado which is located in the San Luis Valley. I am a potato producer and at present raise 220 acres. I am Chairman of the San Luis Valley Potato Committee and have been instructed by my Committee to testify in support of HR 7287 to prohibit futures trading of Maine potatoes.

The question must arise—How could trading in Maine potato futures have any effect on the marketing of Colorado potatoes? Where we must store our crop and market it over a nine month period anything which can effect orderly movement can create troubles in our area. Inasmuch as commodity traders have no interest except the trading of contracts the information on future prices are widely published and influence our producers often in the withholding of supplies for a later shipment and a speculators guess on the market. Often this has resulted in a backlog at the seasons close and the inability of the handlers to process them all or the market unable to absorb the additional supplies.

To base a market on the results of speculators trying to out-guess one another, instead of supply and demand, gives us cause for much concern. Today, being a potato producer requires considerable investment in land and machinery. Machinery alone, for a fair sized operation, easily reaches the \$100,000 figure. We take our chances with weather and other factors beyond our control, but we do not want to take chances on a few individuals who might guess wrong and affect our whole livelihood.

We feel, in addition, that trading in Maine futures causes increased plantings regardless of the United States Department of Agriculture suggested Marketing Guides for Fall crop production. As an example I quote from a Commodity Letter received in the San Luis Valley on May 21, 1971, at which time we are in the midst of planting and with plenty of available seed and land have no difficulty planting additional hundreds or even thousands of acres of potatoes. "Maine potato futures advanced to new contract highs for the season under the influence of reports from Maine indicating that plantings might be as much as 10,000 acres less than were harvested last season, with little prospects that other Eastern producing areas will be able to expand acreage to compensate for this reduction". Isn't it human nature for a producer in our area or any area to take advantage of this suggestion of a crop shortage by planting additional acres? With this information it is a safe bet there will again be overproduction in the nation.

We must do everything to insure our future in the potato business. We must do all possible to see that our product is marketed in the best possible way and to take our chances on a market price based on true economic factors. We strongly urge the support of this legislation.

ORGANIZATIONS IN SUPPORT OF H.R. 7287

American Farm Bureau Federation, Washington, D.C.
 Empire State Potato Club, Inc., LaFayette, N.Y.
 Florida Fruit & Vegetable Association, Orlando, Fla.
 Idaho Grower-Shippers Association, Inc., Idaho Falls, Idaho
 Maine Farm Bureau, Augusta, Maine
 Maine Potato Growers, Inc., Presque Isle, Maine
 Michigan Onion Growers, Stockbridge, Mich.
 Michigan Potato Industry Commission, Lansing, Mich.
 National Council of Farmer Cooperatives, Washington, D.C.
 National Farmers Organization, Presque Isle, Maine
 National Grange, Washington, D.C.
 National Onion Association, East Lansing, Mich.
 National Potato Council, Denver, Colo.
 New Jersey State Potato Association, New Brunswick, N.J.
 North Carolina Potato Association, Raleigh, N.C.

Ohio Potato Growers Association, Columbus, Ohio
 Oregon Potato Commission, Salem, Oreg.
 Pennsylvania Cooperative Potato Growers, Inc., Harrisburg, Pa.
 Potato Growers of Idaho, Inc., Blackfoot, Idaho
 Red River Valley Potato Growers Association, East Grand Forks, Minn.
 San Luis Valley Potato Administrative Committee, Monte Vista, Colo.
 Tulelake Growers Association, Tulelake, Calif.
 Virginia Potato & Vegetable Growers, Belle Haven, Va.
 Wisconsin Potato & Vegetable Growers Association, Antigo, Wis.

THE OREGON POTATO COMMISSION,
January 10, 1972.

Hon. WILLIAM D. HATHAWAY,
House of Representatives,
Washington, D.C.

DEAR MR. HATHAWAY: The Oregon Potato Commission is on record as strongly supporting legislation forbidding futures trading on all potatoes. We, therefore, recommend passage of HR 7287 sponsored by you.

The practice of speculation on futures trading is detrimental to all segments of our industry and should be abolished at the earliest possible date. The orderly flow of potatoes to the market place can best be accomplished by free and open competition.

Sincerely,

E. REED GARRISON,
Administrator.

WISCONSIN POTATO & VEGETABLE GROWERS ASSOCIATION, INC.,

Antigo, Wis., December 20, 1971.

MR. CHIPMAN C. BULL,
Maine Potato Council,
Presque Isle, Maine

DEAR CHIP: Enclosed is a copy of some of the resolutions that were proposed to and passed by the membership at our Annual Meeting, on December 10, 1971.

You will note that we oppose futures in potatoes and any other vegetable crops.

Our reasons are the same as yours. Futures trading has never done too much for the grower. Lately it has become a rigged deal, at grower expense. Think that about sums it up.

Lastly you will note that our resolution opposes futures trading, period. No qualifications. Think this pretty well explains our position.

Though we aren't in a position to testify, I believe that we would endorse most anything that you come up with. Good luck!

Sincerely,

HAROLD D. SARGENT,
Executive Secretary.

PROPOSED RESOLUTIONS FOR 1971 MEETING

Because the Wisconsin Potato & Vegetable Growers Association holds the interest of all producers in Wisconsin paramount in its desire to secure greater profits for them, also the interests of all consumers in receiving a more desirable product; Be it resolved that our association make every effort to expand the use of the Federal-State Inspection Service amongst all producers of the State of Wisconsin.

Be it resolved that we constantly strive to improve the quality of our products, and that we discourage those practices that are harmful to the industry.

Resolved that the Wisconsin Potato & Vegetable Growers Association do all in its power to school its members, and to work with distributors, food editors, and consumer groups in emphasizing the nutritional value of potatoes and vegetables; and to encourage better methods for handling, displaying, and utilization of our products.

Be it resolved that the Wisconsin Potato & Vegetable Growers Association

continue their efforts to improve the conditions for those people engaged in agriculture, employers and employees alike, for neither can progress at the expense of the other.

Resolved that the Wisconsin Potato & Vegetable Growers Association utilize all the public relations tools at its disposal whenever possible, in order that consumers of our industry's products may know the actual facts of the situation and that our products, indeed are not price supported.

Be it resolved that the Directors continue to work with all agencies, state committees, industry representatives, and the University, to encourage the establishment of potato and vegetable processing facilities in Wisconsin.

Because agriculture represents such a small segment of the population, and each commodity group by itself represents even a smaller segment; Be it resolved that the Wisconsin Potato & Vegetable Growers Association join forces wherever possible with other Wisconsin agricultural groups in solving problems that are common to all concerned.

Recognizing that many problems common to the potato producers are also common to potato buyers, haulers and distributors: Be it resolved that the Wisconsin Potato & Vegetable Growers Association encourage these people to more active participation in our association activities, working in cooperation with potato producers in solving problems common to all of us.

We wish to thank all agencies in education, research, marketing, and legislation for helping to advance the potato and vegetable industry in Wisconsin. Be it resolved that we make better known to the general public our respect for the land, and that our use of fertilizers, pesticides, and other production tools, is based on facts rather than fantasy and emotion.

Resolved that the Wisconsin Potato & Vegetable Growers Association endorse any legislation that will prohibit futures trading in potatoes and other vegetable crops.

THE OHIO POTATO GROWERS ASSOCIATION,
Columbus, O., July 26, 1971.

CHIPMAN C. BULL,
Executive Vice President,
Maine Potato Council, Presque Isle, Maine.

DEAR CHIP: The Ohio Vegetable and Potato Growers Association supports the position Maine Potato Council, Presque Isle, Maine has taken on futures trading of Irish Potatoes. The following resolution was made at the 56th Annual Meeting of the Ohio Vegetable and Potato Growers Association—Columbus, Ohio—February 2, 1971:

"Potatoes by their very nature are an unsuitable commodity for futures trading. Such futures trading has in the past caused severe injury to farmers and we do not believe that any corrective actions taken by the Mercantile Exchange or the Commodity Exchange Authority can make a basically unsound situation healthy.

We strongly support legislation by the Congress to prohibit futures trading in white potatoes."

Sincerely,

Sincerely,

WILLIAM McNUTT, *Secretary,*
Ohio Vegetable and Potato Growers Association.

DAVID M. KELLEY, *Manager,*
Ohio Potato Growers Association.

MAINE POTATO GROWERS, INC.,
Presque Isle, Maine, December 31, 1970.

MR. ERNEST CHASSE,
Maine Potato Council,
Presque Isle, Maine.

DEAR ERNEST: Inasmuch as our recent member vote pertaining to the New York Mercantile Exchange was decisively in favor of attempting to eliminate the trading of Maine potatoes on the Exchange, the Directors of Maine Potato

Growers, Inc. will abide by this membership mandate and work with you and the Maine Potato Council in an effort to bring about the wishes of the majority.

Please feel free to call on us when, in your opinion, we can be of help.

Sincerely,

WALTER M. REED, JR., *President.*

Total ballots—730.

Total returned—299.

Total in favor of elimination—243; 81.2%. Average acreage—113.9.

Total opposed to elimination—56; 18.8%. Average acreage—141.6.

USDA STOCK-ON-HAND-REPORT

[1,000 hundredweights]

State and group	Mar. 1, 1972	Mar. 1, 1971	Mar. 1, 1970	Mar. 1, 1969	Mar. 1, 1968	Mar. 1, 1967
Maine.....	21,000	19,900	19,200	21,800	22,500	22,800
Connecticut.....	100	120	120	200	230	240
New York-Long Island.....	1,050	800	950	1,150	1,450	1,350
New York-Upstate.....	1,500	1,900	1,650	1,950	2,100	2,500
Pennsylvania.....	1,750	1,800	1,550	1,600	2,200	1,450
Other States.....	390	270	250	310	370	320
8 Eastern.....	25,790	24,790	23,720	27,010	28,850	28,660
Michigan.....	1,800	2,100	1,600	1,650	2,100	2,050
Wisconsin.....	2,700	2,400	2,150	2,300	2,200	2,550
Minnesota.....	6,400	4,600	5,150	4,750	4,500	2,900
North Dakota.....	7,450	6,900	6,000	6,000	6,000	5,300
Nebraska.....	550	450	500	550	750	400
Other States.....	660	420	240	400	350	420
8 Central.....	19,560	16,870	15,640	16,750	15,900	13,620
Montana.....	950	1,080	1,050	1,130	1,000	830
Idaho.....	33,500	34,000	29,500	22,700	26,600	23,900
Colorado.....	2,600	3,300	3,050	3,300	3,150	3,100
Utah.....	220	260	340	180	490	435
Washington.....	7,500	9,700	7,800	5,100	4,400	3,950
Oregon.....	3,150	3,950	3,500	3,000	3,250	2,650
California.....	2,550	2,600	2,650	2,600	2,700	2,250
Other States.....	180	110	100	135	125	122
9 Western.....	50,650	55,000	47,990	38,145	41,715	37,237
Total 25 fall States.....	96,000	96,660	87,350	81,905	86,465	79,517
February disappearance.....	25,760	25,190	23,815	23,040	26,305	23,523

NEW JERSEY STATE POTATO ASSOCIATION,
c/o RUTGERS—THE STATE UNIVERSITY,
COLLEGE OF AGRICULTURE AND ENVIRONMENTAL SCIENCE,
New Brunswick, N.J., June 22, 1971.

CHAIRMAN, DOMESTIC MARKETING AND CONSUMER RELATIONS,
Subcommittee of the Agricultural Committee,
U.S. Department of Agriculture, Washington, D.C.

DEAR SIR: The Executive Committee of the N.J. State Potato Association, representing more than 100 potato growers in New Jersey, who produce approximately 85% of the Irish potatoes in New Jersey, voted at a regularly called meeting to strongly endorse the passage of HR 7287. The purpose of this bill, as you know, is to remove Irish potatoes from the list of commodities traded in future markets on commodity changes.

We believe that potato futures trading is conducted in large part by speculators who have little or no knowledge of potato producing and marketing problems.

Speculators purchase carloads of potatoes only with the hope that the price will advance so they can make a profit.

They neither own potatoes nor have any knowledge of where to sell them when the price drops and their holdings are often dumped in the terminal markets and are sold as distressed produce resulting in a drop in the market price of potatoes being handled by brokers for their potato producing clients.

Potatoes are a perishable commodity and cannot held by speculators or legitimate brokers for extended periods without serious deterioration and should not be classed with such products as grain.

For these reasons the potato growers of New Jersey favor passage of HR 7287 which would remove potatoes from future trading commodity exchanges.

Sincerely yours,

JOHN C. CAMPBELL,
Secretary-Treasurer.

TULELAKE GROWERS ASSOCIATION,
Tulelake, Calif., June 24, 1971.

HON. ALAN CRANSTON,
*U.S. Senate,
Washington, D.C.*

SIR: We understand the purpose of HR 7287 and its companion bill is to remove Irish potatoes from the list of commodities traded in the futures markets on commodity exchanges, and will soon be heard by the Domestic Marketing and Consumer Relations Subcommittee of the House Agriculture Committee and the Senate Committee on Agriculture and Forestry.

The futures markets on commodity exchanges have long been used by speculators and have a depressing effect on prices received by the farmer for his product. The ultimate effect of the depressed marketing prices for the farmer is the current economic problems of our country. Get the farmer back on 100% of true parity and he will have a reasonable profit above his enormous production costs. He will then put most of the income back into the economy generating more and more income for people in marketing, transportation, equipment and home products manufacturing and selling, utilities, advertising and communications media. There isn't a single industry which would not profit if the farmer profits.

Help stop speculation on farm products. Press for immediate removal of Irish potatoes from the list of commodities traded in the futures market on commodity exchanges.

Yours very truly,

GEORGE E. SMITH, Jr., *President.*

P.S.—Maine Potato Council: We have sent similar letters to Representatives "Bizz" Johnson and Al Ullman, Senators Mark Hatfield, Robert Packwood, and George Murphy.

MALHEUR POTATO GROWERS ASSOCIATION,
Ontario, Oreg., January 10, 1972.

Representative THOMAS FOLEY,
Domestic Marketing and Consumer Relations Subcommittee, U.S. House of Representatives, Washington, D.C.

HONORABLE REPRESENTATIVE FOLEY: The Melheur County Potato Growers Association is in support of H.R. 7287 a bill to prohibit futures trading of potatoes on commodity exchange. We are in support of Maine's efforts to get Maine potatoes removed from futures trading.

Sincerely,

JOEL MITCHELL, *President.*

GREEN ACRES FARMS,
Horsey, Va., January 14, 1972.

Representative WILLIAM D. HATHAWAY,
*House of Representatives,
Washington, D.C.*

DEAR SIR: In regard to the abolishment of the Maine Potato Futures sold on the Mercantile Exchange (Commodity Market), I being a grower and dealer of the Eastern Shore of Virginia would like to support the growers and dealers of Maine.

This practice has too long depressed the potato industry mentally due to the fact that it sets a price, most of the time around the cost of production, for eight to ten months in advance. This causes a slow movement in Maine Potatoes, causing an overlap of other areas coming into production. For example, if

Maine is still shipping potatoes in July when this area comes into the picture, we are unable to compete in any of the New England markets with our potatoes. They will continue to use the Maine Potatoes as long as they are available. Therefore, we are limited to the areas that we can ship. This slows this area up which causes an overlap in the states north of us.

Please give this matter your careful consideration when it comes to your attention.

Sincerely,

W. BEVERLY FLETCHER.
GOULD AND SMITH, INC.,

Presque Isle, Maine, January 6, 1972.

MAINE POTATO COUNCIL,
Presque Isle, Maine

(Attention of Mr. Chipman Bull).

DEAR MR. BULL. During the past number of years we have been taking potatoes in trade for farm machinery. We used to hedge these on the New York Mercantile as November, March or April contracts.

Normally we would buy them back previous to the contract month; however, now that the trading is so light during the named months, we could find ourselves locked into a position and risk a loss just trying to buy back our hedge.

We are definitely not interested in hedging in May because of the lateness and the conflict with planting time.

Yours Truly,

ROBERT N. SMITH.

STATE OF MAINE,
SENATE CHAMBER,
Augusta, October 28, 1970.

ERNEST CHASSE,
President, Maine Potato Council,
Presque Isle, Maine.

DEAR ERNEST: Thanks for your letter of October 21st regarding the results of the ballots on the elimination of trading of Maine potatoes on the New York Mercantile Exchange.

From the council's latest survey of growers' opinion regarding the Mercantile there is no doubt that Maine potatoes on the New York Mercantile Exchange should be eliminated and I will assist and support this proposal.

Sincerely,

ARNOLD S. PEABODY, *Senator.*

C. L. PETTENGILL & SON,
GENERAL MERCHANDISE,
Island Falls, Maine, October 23, 1970.

ERNEST CHASSE,
President, Maine Potato Council
Presque Isle, Maine.

DEAR MR. CHASSE: I have always felt that the Futures Trading interfered with the Maine Potato Industry.

I am definitely against Futures Trading for the following reasons.

1. It establishes a fictitious price for potatoes.
2. Does not allow for a firm day to day price based on Quality, Demand and Supply.
3. Does not allow for a constructive movement of potatoes out of the County to the American Housewife.
4. Encourages farmers to hold potatoes for that Bonanza price in May when they know that it is a physical impossibility to ship them all out in May and get ready to plant a new crop.

I am in the clothing and lumbering business but I will help all I can.

THEODORE PETTENGILL.

STOUT BROTHERS,
PRODUCE BROKERS,
East Orange, N.J., June 4, 1971.

Representative WILLIAM HATHAWAY,
House Office Building,
Washington, D.C.

DEAR REPRESENTATIVE HATHAWAY: Our firm has been marketing Maine potatoes over the last fifty years. From our experiences over the years we wish to urge the abolishment of the New York Mercantile Exchange Maine Futures Commodity market. We have come to the conclusion that this operation does more harm than good and is detrimental rather than helpful to the marketing of Maine potatoes. We find that it encourages speculative and abnormal operations rather than orderly merchandising procedures that would promote consumer demand. We find that quality is sacrificed for board deliveries to the ultimate detriment of the market.

The Maine potato industry is in dire need of quality control and merchandising to endeavor to retain the shrinking fresh potato market due to the competition from the processed items. We feel that the abolishment of futures trading would help contribute toward this essential effort.

Very truly yours,

J. B. STOUT.

AUGUSTA, MAINE, October 26, 1970.

ERNEST CHASSE,
President, Maine Potato Council,
Presque Isle, Maine.

Am glad to support the great majority of Maine potato farmers who wish to eliminate trading of Maine potatoes on the New York Mercantile Exchange. In 1965 in the House of Representatives I supported a memorial to Congress to eliminate potato futures then. I will do all in my power to influence the needed action in Washington.

JAMES S. ERWIN, Attorney General.

December 22, 1971.

Mr. CHIPMAN C. BULL,
Executive Vice President, Maine Potato Council,
Presque Isle, Maine.

DEAR CHIP: I have your letter of December 17th, asking if I were going to present testimony on the Hathaway bill relative to futures trading.

Gilman Albair, Caribou, has a copy of a speech I made twenty years ago relative to this situation. If you haven't read it, please get the copy Gilman has as it is as true today as it was then—that is, what I said at the time.

If you wish to enter this speech in the proceedings, this is my authority for you to do so; I believe my speech would have considerable effect on the hearings.

Sincerely,

WILLIAM J. McCORMICK.

Mr. HATHAWAY. Also, I am most appreciative to you, Chairman Foley, and the members of the subcommittee, for rescheduling hearings on this bill when the originally scheduled September hearings conflicted with the potato harvest last fall. Postponement of the hearings until the present time meant that a substantial number of growers who are now here in the room were able to travel to Washington to indicate their position on this proposed legislation, and to tell you, in person, of some of the difficulties currently being experienced by the potato industry in Maine.

I regret the decision of the committee to allow the opposition to testify on this bill at a later date. This will cause a great deal of inconvenience to the potato farmers who must make a second trip

to Washington later in the spring to hear testimony by the opposition and to offer rebuttal. However, I understand this will not delay action on the bill beyond this Congress.

Mr. FOLEY. I would like to interrupt you, if I may, Mr. Hathaway, to assure you and other supporters of the bill that the second scheduling of hearings in March is, I think, clearly in sufficient time to permit full consideration by the subcommittee and to permit full committee action if the subcommittee finds that it wishes to favorably report the legislation. I want to give you my personal assurance that there will be no delay in convening the subcommittee for consideration of this legislation to work its will on the proposal before it, and that any action will be taken in sufficient time to permit a full range of legislative action and passage, if that is the will of the Congress.

Mr. HATHAWAY. Thank you very much, Mr. Chairman. I appreciate that, and I am sure that all the proponents appreciate it.

The proposed legislation before you today has a long history, stretching back to the 88th Congress. A similar measure enjoyed bipartisan support in that Congress, as evidenced by favorable committee reports in both Houses, and passage in the Senate. Hearings were held during the 89th Congress, and bills have been introduced in subsequent Congresses as the position of Maine growers has progressively worsened and futures speculation has tightened its hold on the potato market.

Previously, nearly all futures trading has been in Maine-grown potatoes at New York, but since 1968-69 there has been some growth in trading of Idaho-grown potatoes at Chicago. Moreover, potato farmers throughout the country are affected by futures trading, since potato prices are hinged to and dominated by futures speculation.

After studying the futures question, and having supplemented my own study with discussions with growers, dealers, mercantile people, and agricultural economists, I have concluded that, on balance, futures grading has proven detrimental to the interests of the Maine potato industry. It is, of course, not the only problem facing the industry, but it appears that futures trading in Maine potatoes is one substantial factor contributing to depressed prices and the general economic plight of Maine potato growers.

Over the past 15 years, the producers in Maine have shown in polls and by mail balloting, that they are overwhelmingly in favor of abolishing futures trading in Maine potatoes. The most recent poll, taken in October 1970, indicates that 81 percent of Maine's growers opposed futures trading.

I cite this only to show that it is the will of the majority of potato growers in Maine that futures trading be abolished. I realize that this fact, in and of itself, does not necessarily address itself to the merits of the proposed elimination of futures trading, but it is nonetheless important to consider that such an elimination is the will of the vast majority of growers.

Other proponents will offer various reasons for favoring the elimination of futures trading in potatoes, but I believe the principal reason is that such trading prevents an orderly marketing of potatoes. This is not just my opinion, but the opinion of the Maine

Potato Council, and it will undoubtedly be a principal argument offered by many of those who testify in favor of the bill here today.

The existence of a futures market where Maine potatoes are bought and sold prevents orderly marketing of the commodity because a farmer, quite naturally, is unwilling or reluctant to sell much of his crop on the fresh market when the price he can receive for his potatoes at a future date is, or may be, higher than what the fresh market will yield. And of course, the potential fresh market buyers are similarly affected by the board.

Acting on expectations regarding future prices, farmers have a tendency to hold potatoes until the last months of trading in hopes of getting a better price. This results in a large supply of potatoes on hand in March, April and May and, because of the perishability of the commodity—i.e., the fact that they cannot be stored through the warm summer months without sprouting and decay—they must be quickly sold. This means that the farmer is often forced to get rid of his potatoes at a very low price.

Of course, it can be argued that this May situation would exist whether there was a board or not, but if there were no board, the supply of potatoes on hand in May would be substantially less because they would have been sold on the fresh market earlier in the marketing season.

The fact that there is a board quoting a futures price for May inhibits a farmer from selling on the fresh market in earlier months. Hoping the March, April, or May board will go up, a farmer holds his potatoes until late in the marketing season rather than marketing them evenly from October to May. Admittedly, this has sometimes worked to the farmer's benefit, but overall the effect of concentrating the sale of potatoes in a 3-month period has been detrimental.

If farmers could sell their potatoes in an orderly market from the time they are harvested in late September and early October, prices could be stabilized, and farmers would have a better chance of getting a good return over the course of the whole marketing period which ends in mid-May.

By selling a certain amount of potatoes throughout the marketing period, Maine farmers could firmly establish themselves in markets they don't have at the present time, could build a name for the Maine potato industry, and could compete with other segments of the industry more effectively.

At the present time, the nonorderly marketing in Maine potatoes creates a situation where Maine growers are, in effect, holding an umbrella over the rest of that commodity's growers. Maine potatoes are only on the market for a few short months and, contrary to that popular saying, absence does not make the heart grow fonder—at least when it comes to consumers and potatoes.

If Maine potatoes were marketed in an orderly manner, competition within the industry would increase, bringing a better product that will benefit both the consumers and the industry.

The Maine Potato Council has assured me that, should this bill be approved and futures trading in potatoes be eliminated, they will take every action to initiate orderly marketing procedures in Maine potatoes.

At this point, Mr. Chairman, I would like to comment upon the Agriculture Department's report on H.R. 7287. While the report recommends the bill not be enacted, it does not address itself to the issue at hand, namely, the effect of futures trading on the orderly marketing of a perishable commodity such as potatoes.

Futures trading may be a valuable device for marketing storable agricultural commodities such as cotton and grains. Both as a hedge and as a credit mechanism, futures trading may be of value for crops which are held for marketing over a long period of time. For perishable commodities such as potatoes, however, the mechanism of futures trading presents special problems, and I feel the Department did us a grave disservice in failing to take note of this fact.

Congress has already recognized this problem of perishability by voting in 1958 to eliminate futures trading in onions, and apparently this has worked to the benefit of most growers since there has been no significant move by any sizeable segment of that industry to restore futures trading. Potatoes are the only perishable limited-season commodity currently being traded in the futures market.

Eggs, for example, are also of a perishable nature, but the fact that eggs are produced all year long and can also be stored for significant periods of time differentiates the perishability problem of eggs from that of a perishable crop such as onions and potatoes.

I urge your careful consideration of this bill and its implications, and I hope for your favorable report. It is my view that the elimination of futures trading in potatoes is a necessary first step toward the establishment of a healthy Maine potato industry.

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

Mr. FOLEY. Thank you very much, Mr. Hathaway.

Mr. KYROS, from your cosponsorship of this legislation and from the discussions we have had about it with Mr. Hathaway and you, I know you associate yourself with the remarks of your colleague, Mr. Hathaway, but we shall be happy to hear any additional comments you wish to make.

STATEMENT OF HON. PETER N. KYROS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. KYROS. Thank you very much, Mr. Chairman. I certainly do associate myself with the remarks of the senior member of the complete Maine delegation, which is here before you today. I also am very happy to see my friends on this subcommittee, men for whom I have great admiration, here in the Congress.

I appreciate particularly having the opportunity to come before you, Mr. Chairman, to urge that favorable consideration be given to the bill introduced by Congressman Hathaway and myself to eliminate futures trading in potatoes. We do not pretend in any way that this will solve our total potato problem, but it will go a long way in the right direction.

I also would like to say that although I am from Maine and I represent the First District, most of the potato-raising, if not all of it, is done in Bill Hathaway's district.

I make no pretense of knowing all the technical aspects of the trading that does go on, but I am aware, from the many friends that I have in the Second District and from Maine farmers, that in the past 15 years, the futures trade has been regarded as a burden, really not as a help to them. Instead of creating favorable economic conditions, based upon a market of supply and demand, futures trading has resulted, actually, in disorder and unjustified price movements. With the apparent manipulation that is practiced and the lack of facilities to pack and deliver upon closing, the futures board cannot be used by growers as a true and beneficial hedge, as it was originally intended.

If volume and speculation increase, price movements are stimulated. Maine farmers know from bitter experience that such large-scale gambling in their product creates wide price swings and causes recurring chaotic conditions in their market.

The daily price fluctuation has continued to be wide, wider than would be the case without futures trading.

Another point to be considered, Mr. Chairman, is that the perishability of potatoes, as my colleague has well pointed out, makes them unadaptable to futures trading. Many growers, unable to make delivery, are hurt through settlement requirements. Perishability encourages trading in futures contracts before final delivery, encouraging further price instability.

The Maine potato industry needs a stable economic market and this is not being provided by the current arrangement of futures trading. In 1958, as Mr. Hathaway pointed out, the Congress enacted legislation to abolish onion futures trading, and market conditions for that product have steadily improved. The futures trading noose should be lifted from the Maine potato farmers' necks.

I hope that this committee, Mr. Chairman, will consider carefully the merits of H.R. 7287 and approve this much-needed legislation.

I should say, personally, from my experience in the past 6 years with the chairman, I know that this bill will receive full and fair consideration.

Mr. FOLEY. Thank you very much, Mr. Kyros.

Before I ask the subcommittee members if they have any questions of our distinguished colleagues, I would like to assure those in the hearing room today that Mr. Hathaway and Mr. Kyros are very determined proponents of this legislation, and have been consistent in their urging its advancement throughout the past year.

I want to repeat my assurance, as chairman of this subcommittee, that this legislation will receive full and prompt consideration by the committee in this legislative year to assure that any decision that the subcommittee and the full committee and the Congress wish to make on this legislation can be made in sufficient time before the adjournment of the 92d Congress.

I want to personally thank both of my colleagues for their appearance today and their very helpful statements on this complex and difficult legislation.

The Chair wishes to recognize any members who have questions of our distinguished colleagues.

Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

Just very briefly, Mr. Hathaway or Mr. Kyros, this will apply to potatoes everywhere; is that correct, and not only in Maine?

Mr. HATHAWAY. That is correct, Mr. Goodling.

Mr. GOODLING. In my profession, we do not have futures trading. I happen to be a fruit grower and we have problems, I know. Would you please tell this committee—I am sure many members know, but I am frank to tell you that I do not know. Just how does futures trading in potatoes operate? What happens?

Mr. HATHAWAY. There is a booklet available called "Futures Trading in Maine Potatoes," put out by the Department of Agriculture Commodities Exchange Division, Market Survey Report No. 2, which answers your questions in more detail than I can answer them. If I do not answer completely, Mr. Bull and others are here who can do it for me.

People who are not necessarily potato farmers, or even want to buy or sell potatoes, can in the New York Mercantile Exchange, enter contracts through the exchange, such as you and I. I might be a person who wants to sell potatoes. I do not own any potatoes of my own. I really do not, in the long run, intend to sell them to you; you do not really want potatoes, either. Each of us is just out to make some money.

So, through the exchange, I agree to sell you potatoes, we shall say, at \$3 for delivery in March, and you agree to buy them at that price.

Then, the time approaches when we have to liquidate our contract. I am hoping, since I do not have any potatoes, that the price of potatoes will go down, say, to \$2.50, so that I can make 50 cents on this deal. I am what you call a short seller. I am short of potatoes; I do not have any potatoes.

You are what is called a long, or you are a buyer of them. You are hoping the price will go up. Say, it goes up to \$3.50, you can make 50 cents on the deal. So when the times comes around to March, say, the price has gone to \$3.50. Instead of my actually getting the potatoes and delivering to you, I just give you the difference in what the contract would be. The contract was originally \$3. It is \$3.50. I give you the 50 cents.

This is per barrel. I am talking about. Naturally, we would be dealing in carloads, which would amount to a considerable amount of money.

If it has gone down, we shall say, the 50 cents, and you give me the 50 cents difference, we, in effect, tear up the contract. No potatoes have been bought and sold, but you and I have, through this mechanism, established a price for the future delivery of these potatoes.

The same thing is true with other futures markets, with respect to pork bellies, corn, grain, whatnot.

Mr. GOODLING. Who is responsible for getting the potatoes through the exchange?

Mr. HATHAWAY. Well, in the event that they have to be delivered, I would have to, if you were going to demand the delivery of these potatoes, go out and get Maine potatoes at whatever price I could buy them for and deliver them to you, where I had agreed to deliver

them to you. But in 99 cases out of 100, and maybe the ratio is greater than that, there is no delivery whatsoever made.

This book does indicate, and I forget offhand just what the statistics are, as to the number of actual transactions that occur in relation to the number of potatoes that are actually delivered. The ratio is very, very high.

Now, that is a sort of gambling device which the Mercantile people say does establish a price for potatoes and creates a market for potatoes. Our argument is, or at least the argument I have made is, that because you have this future price of delivery for potatoes, this inhibits the farmers from doing what your people are doing, Mr. Goodling, selling their fresh produce on the fresh market from the time they first harvest it right through the time that it reaches the point of perishability.

Mr. GOODLING. That is all. Thank you.

Mr. KYROS. Mr. Goodling, I might add to what my colleague has stated that it has often been said that the Mercantile Exchange furnishes a valuable device, that it really protects the potato farmer, because by buying certain contracts and putting them on the market at certain times, or preparing to sell them, he can give a hedge as to the price he will get for the potatoes. But the facts do not show that.

In this booklet about which Mr. Hathaway has spoken, put out by the United States Department of Agriculture, Market Survey Report No. 2, in May of 1971 it says of those traders covered by the survey: "The vast majority, 2,574 traders, 93.4 percent of the total, were classified as speculators, and a considerably smaller number, 183 traders, or 6 percent of the total, were classified as hedgers."

In other words, sir, when he says it really results in a business risk by what we call speculation in futures contracts, that is what really happens, instead of promoting the stability of the potato market.

Mr. FOLEY. Mr. Link, do you have any questions?

Mr. LINK. Nothing, thank you.

Mr. FOLEY. Mr. Zwach?

Mr. ZWACH. Just very briefly, may I just assure you gentlemen that we shall give this entire area very, very careful consideration?

Congressman, you make in your statement on page 5 this statement, that futures trading is unquestionably of value for crops which may be held for marketing over a long period of time, speaking of more storable agricultural commodities. Now, you know, I really think the Congress needs to take a very careful look at all futures trading. In my area, corn plunged last fall, before a bushel was harvested, from \$1.39 in my congressional district, to 88 cents, all caused by gamblers and speculators in the corn market.

I think the Congress needs to take an overall look at it. I would hope that you are not implying here that unquestionably, there is nothing wrong with the whole industry outside of potatoes.

Mr. HATHAWAY. Mr. Zwach, I shall ask unanimous consent to scratch "unquestionably" from my statement.

Mr. ZWACH. I would fully appreciate that, because I think this needs overseeing as to the real value of futures trading in agricultural commodities.

Mr. FOLEY. Off the record.

(Brief discussion off the record.)

Mr. ZWACH. Mr. Chairman, I would appreciate striking the reference to its value in other commodities. I do not believe it belongs here, anyway.

Mr. HATHAWAY. I would be glad to do that, Congressman Zwach.

Mr. FOLEY. Mr. Matsunaga?

Mr. MATSUNAGA. I have no questions.

Mr. FOLEY. Mr. Bergland?

Mr. BERGLAND. No questions.

Mr. FOLEY. Again, I want to thank our distinguished colleagues for opening these hearings, and we are confident that we shall have the benefit of their continuing advice and counsel in this legislation.

Thank you again.

Mr. HATHAWAY. Thank you, Mr. Chairman.

Mr. FOLEY. The next witness to come before the subcommittee this morning is Mr. Alex C. Caldwell, Administrator of the Commodity Exchange Authority, United States Department of Agriculture. Mr. Caldwell is appearing on behalf of the Department of Agriculture to state its views on the pending legislation.

Mr. Caldwell, we are glad to see you here this morning. I wonder if you would be kind enough to introduce to the subcommittee those who are accompanying you?

STATEMENT OF ALEX C. CALDWELL, ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY ALEXANDER SWANTZ, ASSOCIATE ADMINISTRATOR; AND RONALD C. CALLANDER, DIRECTOR, TRADING DIVISION

Mr. CALDWELL. Mr. Chairman, members of the committee, I am pleased to appear here in behalf of the Department on H.R. 7287, a bill proposing to prohibit trading in Irish potato futures on commodity exchanges. I have with me, on my right, Dr. Alexander Swantz, Associate Administrator, and on my left, Mr. Ronald C. Callander, Director of the Trading Division of the Commodity Exchange Authority.

The Department has recommended that H.R. 7287 not be enacted.

The bulk of futures trading in potatoes is conducted in Maine potatoes on the New York Mercantile Exchange. Therefore, this statement will deal largely with conditions in that market. Trading in Idaho potatoes on the Chicago Mercantile Exchange started again in 1968 after several years of inactivity. In the 1970-71 crop year, 86 percent of the futures trading was in New York and 14 percent was in Chicago. Trading in the potato futures markets was comparatively small, representing only about two percent of the trading on markets regulated under the Commodity Exchange Act in the 1971 fiscal year. There were 238,000 trades in the two markets combined compared with 2.7 million in corn, 2.7 million in soybeans, and 1.5 million frozen pork bellies.

Trading in Maine potato futures has shown a marked decline since 1966-67, falling from 692,014 carlots to 209,579 carlots in 1970-71.

The revival of trading in Idaho potatoes in 1968 accounted for only a small part of the decline in trading in Maine. Production shifts to the west and developments in processing appear to have been more important factors in the decline in Maine potatoes.

As in other commodities, futures markets in potatoes fulfill a useful and needed economic function in the production and marketing of potatoes. They provide (1) facilities for hedging by producers, merchandisers, processors, and others who seek protection against loss from price fluctuations, and (2) reliable pricing information open and available to all.

The hedging facilities of the potato exchanges are being used by many growers, cooperatives, shippers, chainstores, and processors. With the Chairman's permission, I would like to submit at this point a table showing the amount of hedging and speculation in the Maine potato market on 11 dates covering the period 1956-1970.

Mr. FOLEY. Without objection, it is so ordered. It will be received. (The table above-referred to, follows:)

MAINE POTATO FUTURES: NUMBER OF TRADERS AND AMOUNT OF POSITIONS CLASSIFIED AS SPECULATIVE AND HEDGING, ¹ NEW YORK MERCANTILE EXCHANGE, ON ANNUAL SURVEY DATES, 1956-63, 1964-65, AND 1970

[Positions in carlots]

Date	Speculative			Hedging			Total		
	Number of traders	Positions		Number of traders	Positions		Number of traders	Positions	
		Long	Short		Long	Short		Long	Short
Oct. 31, 1956	500	2,301	1,774	306	2,575	3,102	806	4,876	4,876
Oct. 31, 1957	673	3,303	1,991	198	1,374	2,686	871	4,677	4,677
Oct. 31, 1958	528	2,014	1,281	182	1,460	2,193	710	3,474	3,474
Oct. 30, 1959	921	5,700	2,033	282	1,615	5,282	1,203	7,315	7,315
Oct. 28, 1960	958	4,211	3,525	239	2,892	3,578	1,197	7,103	7,103
Oct. 27, 1961	1,170	7,466	3,944	300	3,196	6,779	1,470	10,662	10,723
Oct. 26, 1962	1,273	6,782	3,646	290	2,015	5,079	1,563	8,797	8,725
Oct. 31, 1963	747	4,229	2,315	178	1,932	3,846	925	6,161	6,161
Dec. 31, 1964	2,332	13,114	7,338	723	6,168	11,944	3,055	19,282	19,282
Oct. 29, 1965	3,246	15,005	9,135	425	3,091	9,026	3,671	18,096	18,161
Nov. 27, 1970	2,574	10,979	10,124	183	1,834	2,689	2,757	12,813	12,813

TRADERS AND POSITIONS AS PERCENT OF TOTAL

Oct. 31, 1956	62.0	47.2	35.4	38.0	52.8	63.6	100.0	100.0	100.0
Oct. 31, 1957	77.3	70.6	42.6	22.7	29.4	57.4	100.0	100.0	100.0
Oct. 31, 1958	74.4	58.0	36.9	25.6	42.0	63.1	100.0	100.0	100.0
Oct. 30, 1959	76.6	77.9	27.8	23.4	22.1	72.2	100.0	100.0	100.0
Oct. 28, 1960	80.0	59.3	49.6	20.0	40.7	50.4	100.0	100.0	100.0
Oct. 27, 1961	79.6	70.0	36.8	20.4	30.0	63.2	100.0	100.0	100.0
Oct. 26, 1962	81.4	77.1	41.8	18.6	22.9	58.2	100.0	100.0	100.0
Oct. 31, 1963	80.8	68.6	37.6	19.2	31.4	62.4	100.0	100.0	100.0
Dec. 31, 1964	76.3	68.0	38.1	23.7	32.0	61.9	100.0	100.0	100.0
Oct. 29, 1965	88.4	82.9	50.3	11.6	17.1	49.7	100.0	100.0	100.0
Nov. 27, 1970	93.4	85.7	79.0	6.6	14.3	21.0	100.0	100.0	100.0

¹ Classification of traders' positions as speculative and hedging as reported by futures commission merchants and exchange clearing members.

Note: Some positions are for different dates at the time of the survey, resulting in a minor difference between total long and short open contracts.

Mr. CALDWELL. Thank you.

This information was obtained by complete surveys of the futures market conducted by the Commodity Exchange Authority. The table shows that based on our last survey in November 1970, both open futures contracts and hedging have declined from the level shown in

the 1964 and 1965 surveys. The fact remains that the New York market continues to be used for hedging purposes. Some 183 traders were reported as hedgers in the 1970 survey. We have not made a survey of the Chicago market in Idaho potatoes, but reports of large traders filed with us show growers, shippers, and processors using the market for hedging purposes.

The potato industry hedges in the futures market for the same reasons as hedgers do in other commodities. Wide price fluctuations in potatoes make hedging desirable, and it is through this hedging that farmers, dealers, and others in the industry are able to protect themselves from the wide price movements and are able to market potatoes on a more economic basis.

The pricing basis furnished by the futures markets in potatoes is open and known to all. The focusing of the forces of supply and demand into one competitive marketplace and the wide dissemination of the resulting prices benefit most persons concerned with the marketing of potatoes. The inherent advantages of this pricing system become most apparent when contrasted to other systems wherein prices are privately negotiated. Futures markets in potatoes simply register and reflect prices. They do not, if they are functioning correctly, make prices. An analogy can be made here. Futures markets are like a thermometer. They register prices based on supply and demand conditions. If the thermometer is removed, the temperature is not changed. It follows that the removal of futures trading in potatoes will not change the supply and demand conditions that are affecting price.

The problems facing Maine and Idaho potatoes are not to be found in the futures market but arise from the total supply picture for potatoes in the United States. Production and available supply are major forces that affect potato prices. As stated in the USDA Acreage Marketing Guides, 1971 late summer and fall potatoes:

U.S. potato acreage has been holding on a level plane, yield per acre is increasing, and total production has been exceeding primary market needs for food and seed by a wide margin. The potato industry continues highly competitive with the result that grower prices frequently are under pressure.

As stated in a study by the Department's Economic Research Service entitled, "An Economic Study of the U.S. Potato Industry":

The serious instability in potato prices, and consequently in income to producers, results from a combination of the inelasticity of demand for potatoes, and from variations in production. Although year-to-year changes in production are fairly moderate, the inelastic demand for this product results in sharp price fluctuations.

The report goes on to say:

In the case of potatoes, consumers want about the same quantity from one year to the next, regardless of prices. This means that appreciable additional quantities can be moved into food channels only at greatly reduced prices. Or to put it another way, consumer demand for potatoes is highly inelastic—that is, consumption changes little with relatively large changes in price. Or, looking at it another way, small changes in the quantity marketed result in much larger changes in price.

Maine and Idaho potatoes cannot be isolated from the total pricing picture because economic forces from all potato-producing regions in the United States are brought to bear upon prices. Because of

complex interregional rail and truck movement of potatoes each year, variations in production in any major producing area affect the total price structure, and a sizable increase in any major producing area generates price repercussions throughout the potato industry.

Although the production of potatoes in Maine has been relatively constant since 1960, this has not been the case in Idaho and Washington, where production has almost doubled in the last 10 years. In 1970, Idaho accounted for 22.9 percent of the total U.S. production; Washington, 10.3 percent; and Maine, 11.0 percent. Other areas in the west have also contributed to the supply pressure on prices. On the demand side, per capita consumption of potatoes has risen to about 120 pounds in 1971 from 108 pounds in 1965 because the per capita increase in demand for processed potatoes has more than offset the declining demand for tablestock potatoes.

The Maine farmer faces the gauntlet of price competition of other areas longer than any other producing area. Maine potatoes, because of that State's geographic location, move to market later than potatoes from any other fall area.

It has been said that futures trading has encouraged Maine growers to market a large share of their crop late in the season, squeezing their marketings into a short period, causing more overlap with new crop production. Because of the price action of futures, particularly the May contract, some growers in Maine may have been encouraged to hold their crop for later marketing on the chance of making a greater profit. But there have been other competitive forces in the marketing of the crop which have influenced the pattern of marketing for the Maine crop. Maine has to share market outlets with other Eastern States. For example, New York and Pennsylvania producers effectively compete with Maine in several eastern markets. If the product quality of these competing States is comparable, the competitive advantage goes to the States with the lower transportation costs. Rather than take a lower f.o.b. farm price early in the market season to offset their higher transportation costs, Maine growers seem willing to risk the chance of a more favorable price later in the season. Generally, Maine potato prices received by growers have been higher during March and April than they were during the preceding November.

Regional competition in pricing also emerges in the type of merchandising used, especially in packaging and appearance of potatoes. The housewife demands an attractive and uniform package. The merchandising problem of Maine is expressed in an article appearing in the Potato Councillor, May, 1971, under the byline, "President's Views." The article states in part:

One of our problems . . . concerns getting our potatoes to the consumer in the best condition possible. If you were a housewife buying a bag of Maine potatoes, what would you like to find in it? Certainly not dirty, sunburnt, bruised, cut, knobby, soft, sprouted, or too big or too small potatoes. But I am sorry to say that these can sometimes be found in some Maine potato bags as well as in packages from other production areas.

The marketing structure of potatoes in Maine and Idaho has been changing because of the large increase in the processing of potatoes

in recent years. Idaho is an important processing area. In Maine, almost half of the crop for food use, or about one-third of total production, is now being processed. Processors are contracting forward with growers early in the marketing season, and some are using the futures market for hedging their price risks. What ultimate impact the increased processing of potatoes will have on the market structure and pricing system cannot be foreseen. The competition between processors and shippers of tablestock potatoes will continue. The prices paid producers by processors are generally lower than the prices producers receive for tablestock potatoes. However, the presence of a November contract on the exchange tends to put a floor under the price offered growers for processing stock.

Because of the increased production of potatoes in the United States rising from 293 million cwt. in 1961 to 326 million cwt. in 1970, and the inelasticity of demand, prices of potatoes, as we have already noted, have been under constant pressure. Futures markets in potatoes reflect in prices registered the aggregate supply picture and not just local area conditions. The exchanges appear to have performed satisfactorily in this function by crystallizing market information and disseminating prices reflecting supply and demand conditions.

Studies made in recent years by the CEA and Economic Research Service have not demonstrated that futures trading in potatoes has had a substantial or sustained effect upon producers' prices. Changes in Maine prices approximate those of other areas without futures trading. The conclusion that we reach in studying recent price movements in various areas is that the same price influences are brought to bear on potato prices in all areas and that prices in Maine do not fluctuate more than in other producing areas.

In 1958 Congress prohibited futures trading in onions. Studies by the Department and others since that time have revealed that the prohibition of futures trading did not reduce price variability in the cash market. We are having some further independent research work conducted in this area by the University of Wisconsin. Preliminary findings by Professor Aaron C. Johnson, Jr., of the University have indicated that:

... with the exception of one year, the seasonal pattern in the farm price of onions has remained relatively stable for the past twenty years; a period characterized by a nine-year period of substantial hedging and a ten-year period with no hedging.

The results suggest, according to Dr. Johnson, that:

... the seasonal pattern in onion prices observed during the period of substantial futures activity has persisted to the present time. While this may not provide a strong case for arguing in favor of the presence of a futures market it should, on the other side of the coin, offer solid opposition against the charge that the futures marketing caused excessive variation in onion prices.

The futures markets in potatoes are not perfect markets—no market is. The potato futures markets are susceptible, as are all futures and cash markets, to price manipulation, excessive speculation, and other abuses. On several occasions the Department has brought administrative action against traders for violation of the Commodity Exchange Act just as it has brought action against traders in other markets. We are continuing close surveillance of these markets.

In May 1971 there was market congestion and an abnormal price movement in the May future of Idaho potatoes on the Chicago Mercantile Exchange. We are investigating this matter to see whether there is evidence of price manipulation.

In July 1971 the New York Mercantile Exchange signed a stipulation of compliance before the Commodity Exchange Commission in which it agreed to desist from certain actions and practices in violation of the Commodity Exchange Act. Two main issues were involved in this action: (1) trading after hours and (2) failure to maintain adequate records concerning transactions in the 1970 May future and to enforce its rules and recordkeeping requirements. A recent follow-up investigation on the matter covered by this stipulation showed that corrective actions instituted by the exchange in compliance with the stipulation were being followed.

The Department of Justice has on occasion brought criminal action against traders for violation of the Commodity Exchange Act. In one recent action, a Federal Court fined a Miami trader \$140,000 for violation of speculative limits in potatoes. This criminal action followed earlier administrative action by the Department of Agriculture as a result of which the trader and several associates were denied trading privileges on all contract markets for a period of 90 days.

Although such violations are indeed serious, they are found in all futures markets and should not overshadow the benefits of the futures market as a marketing tool.

In our opinion, market organization and production efficiencies rather than the presence or absence of a futures market are keys to the survival and growth of the potato industry. Perhaps the futures market has diverted attention from the basic problems faced by growers in Maine. However, futures trading has proved to be a useful tool to many by shifting the risks of production and marketing to others who felt they could profit thereby.

In summary, futures trading has been and can continue to be helpful to many producers, shippers, and processors without being a detriment to the rest of the industry.

Mr. Chairman, that concludes my statement. My associates and I will be pleased to answer any questions the committee may have.

Mr. DENHOLM (presiding). Thank you very much, Mr. Caldwell, for a rather comprehensive statement.

I might say at this time that Chairman Foley has been called away for a few moments. We shall take questions from the members of the subcommittee on your testimony Mr. Caldwell, and also members of the committee may inquire of the next witness. Obviously, there are more witnesses today than we shall have time to hear and we shall hear as many as possible before members of the committee shall further inquire of the witnesses that follow. Members who have questions of Mr. Caldwell may proceed at this time.

Mr. ZWACH. I have one.

Mr. Caldwell, you administer the whole field of commodity trade in futures markets, all the corn, all feed grains, and potatoes?

Mr. CALDWELL. The Commodity Exchange Act specifies which commodities are regulated by the Department of Agriculture. There are

some 20 of these that have active futures markets, including corn and other feed grains.

Mr. ZWACH. You are the overall Administrator?

Mr. CALDWELL. Yes, sir.

Mr. ZWACH. How many years have you administered this program?

Mr. CALDWELL. I have been Administrator since 1960. I have been with the agency since 1950. There are a number of commodities, however, that do not come under our jurisdiction—some agricultural commodities such as sugar, coffee, and cocoa; and all of the metals, propane gas, and things of that nature which are not agricultural.

Mr. ZWACH. It is your contention that this exchange accrues to the benefit of potato growers?

Mr. CALDWELL. That is our belief; yes, sir.

Mr. ZWACH. In spite of the fact that 80 percent of them feel it does not?

Mr. CALDWELL. Our feeling is that growers who use the market properly are obtaining a benefit from it. We do not believe that other growers, who do not use the market are faced with any problems as a result of it.

Mr. ZWACH. You mean benefits to growers only would come for those who join the speculation and the gambling on the market?

Mr. CALDWELL. Well, if they are speculating, they may or may not benefit from it. What I have in mind is hedging, not only by growers but others in the industry: the shippers, the merchandisers, the processors, the chain stores who use the market for hedging purposes.

A hedger is interested in protecting himself against price changes. He is not speculating. He is not gambling in the markets. The speculation in the market is by the persons who are, as a rule, on the other side of the hedgers' transactions.

Mr. ZWACH. Could you give an estimate of the number of people that now make their living from speculating in potatoes that are not growers, never invest a penny of money, but now made their living in the gambling, speculating end of it, people who were not in this potato industry before we had this commodity futures program?

Mr. CALDWELL. We submitted for the record earlier in my statement a schedule showing the number of traders and the amounts of positions classified as speculating and hedging on the New York Mercantile Exchange on various survey dates between 1956 and 1970. These vary, but if I may just take the last one, November 27, 1970, there were 2,757 traders in the market. Of those, 183 were classified as hedgers.

Mr. ZWACH. I have not made a survey, but I think in my congressional district, which is corn country, I think that at least 85 percent of my growers think that this speculating end of it is very, very damaging to their industry. I would hope that your Department takes a real careful survey of all of this. These people are producers. They do not like to get into speculating, they have enough hazards in their business without trying to get into the speculative gambling end of it.

So we have, I think, the great bulk of our producers question seriously this part of our marketing system.

Take automobiles. They never speculate on the price of automobiles; they speculate on the shares of stock. Now, if you can devise a system where speculation in farm products is not on prices but on some other type or character, I would go for it. Prices on corn, without a bushel harvested, plunged from \$1.39 to 88 cents in my congressional district last fall. It put them into bankruptcy, many of them. That never happens in a surplus in Fords or in a surplus in General Motors, or a surplus in any other product. But in agricultural commodities, our people are crucified in this program.

This needs a reassessment, because now the input costs \$1.05 per bushel to just grow a bushel of corn, without any return for labor or any other benefit. You know where corn prices have been.

So I question seriously whether gamblers and speculators ought to be setting the price of farm products.

[Applause.]

Mr. CALDWELL. May I reply, Mr. Chairman?

Mr. DENHOLM. Yes.

Mr. CALDWELL. It is our position that speculators do not set the prices, that supply and demand conditions in the market set the prices for all commodities, corn and potatoes, or anything else.

Now, the drop in corn prices to which you are referring was due to a variety of factors which do not, in my opinion, include the futures market.

Mr. ZWACH. There was not a bushel of corn harvested when the prices plunged just this way.

Now, go to the rest of America. We have a surplus of labor in America. We have a big surplus of labor, 6 percent unemployed. We are not putting through the floor the price of labor, are we?

We have a surplus now of professors; they are a drug on the market. Yet, we are not putting them through the floor on the price of their labor. I think our Department of Agriculture needs, and I think as friends of producers you ought to be looking at some of these real serious problems, because just the board of trade needs a very, very careful analysis of the question of whether those fellows ought to set farm prices.

I admit that these producers are lax, we are not setting our own prices. We have no bargaining strength. But I think you, as a Department of Agriculture employee, ought to be dealing with this in depth and length and breadth, and height. I hope that we shall have some suggestions in these areas.

Mr. CALDWELL. The Department of Agriculture is very much concerned, as you know, about the low prices in corn and other commodities, and it is reviewing this in depth. But, as I said earlier, this is a result of factors outside of the futures market, and the futures market merely reflects those factors, as does the cash market.

Mr. ZWACH. There has been a surplus of Fords on the market. I did not see any reflection of prices in Fords. I need a pickup truck on my farm. They have been in surplus, many of them sitting around. I never saw prices go down one nickel because of this surplus.

We have rigidity all across America except in farm products. Think about that a little.

That is all, Mr. Chairman.

[Applause.]

Mr. DENHOLM. Thank you.

We appreciate the applause and spontaneous response to the observations of our distinguished colleague from Minnesota. However, we shall have order in the committee room.

Do you have any questions, Mr. Link?

Mr. LINK. Mr. Chairman, I commend those who have come here to present testimony regarding a matter that affects all of agriculture. I think we owe a debt of appreciation to all who have come here, and I can lend my endorsement to the very candid and forceful examples that our colleague, Congressman Zwach, has. I would lend my support to his views.

Mr. DENHOLM. Thank you, Mr. Link.

Mr. Bergland?

Mr. BERGLAND. I have no questions, Mr. Chairman.

Mr. DENHOLM. Mr. Goodling?

Mr. GOODLING. No questions, Mr. Chairman.

Mr. DENHOLM. May I ask you a question on another matter? Do you have under your supervision trading in beef futures?

Mr. CALDWELL. We have under our supervision trading in livestock and livestock products. This would include live cattle, live hogs, frozen products of various types.

Mr. DENHOLM. Would your testimony be the same if it pertained to beef?

Mr. CALDWELL. Yes, it would.

Mr. DENHOLM. Are you familiar with what has happened recently in the Chicago futures on beef?

Mr. CALDWELL. Yes, sir.

Mr. DENHOLM. Do you have any idea how much that has cost the feeders of beef?

Mr. CALDWELL. Well, Mr. Chairman, as I mentioned earlier, I do not believe that the futures market can be held accountable for any reduction in price or for any rise in price, for that matter. I think it is just conditions in the market which are reflected on the futures market.

Mr. DENHOLM. What caused the beef futures to go up in October and November?

Mr. CALDWELL. A supply shortage.

Mr. DENHOLM. How much did they go up over the contract prices?

Mr. CALDWELL. I do not have the figures readily available. I shall be glad to supply them for the record, if you would like.

Mr. DENHOLM. Yes, I will appreciate that, if you will do so.

Mr. CALDWELL. What period would you like to cover, Mr. Chairman?

Mr. DENHOLM. For period from October 1, 1971, to the present time.

Mr. CALDWELL. To the present time?

Mr. DENHOLM. Yes. I might say that we have had several complaints from feeders in my district. I know that people have tried to

hedge against the market and that they have experienced tremendous losses on those futures. I think you are aware of that, are you not, Mr. Caldwell?

Mr. CALDWELL. I have heard some complaints about the market, yes, sir.

Mr. DENHOLM. You have heard about it?

Mr. CALDWELL. I have; yes, sir.

(The information above-referred to, follows:)

LIVE BEEF CATTLE: CLOSING FUTURES PRICES ON THE CHICAGO MERCANTILE EXCHANGE, BY FUTURE, DAILY
OCT. 1, 1971-JAN. 20, 1972

[Dollars per hundredweight]

Date	1971		1972					
	October	December	February	April	June	August	October	December
1971								
Oct. 1	32.65	32.22	52.00	31.42	30.97	31.00		
Oct. 4	32.50	32.10	31.97	31.45	31.02	31.00		
Oct. 5	32.45	32.15	32.02	31.50	31.12	31.00		
Oct. 6	32.55	32.20	32.10	31.55	31.17	31.10		
Oct. 7	32.50	32.20	32.15	31.60	31.27	31.15		
Oct. 8	32.40	31.90	31.90	31.45	31.20	31.00		
Oct. 11	32.37	32.02	31.97	31.40	31.20	31.00		
Oct. 12	32.45	32.15	32.02	31.45	31.17	31.05		
Oct. 13	32.45	32.15	32.05	31.50	31.17	31.05		
Oct. 14	32.60	32.37	32.30	31.70	31.45	31.15		
Oct. 15	32.65	32.35	32.20	31.72	31.47	31.20		
Oct. 18	32.82	32.35	32.10	31.57	31.30	31.05		
Oct. 19	33.05	32.30	31.85	31.30	31.00	30.85		
Oct. 20	33.07	32.47	32.00	31.30	31.00	30.90		
Oct. 21		32.85	32.25	31.55	31.30	31.20		
Oct. 22		32.95	32.30	31.47	31.22	31.20	31.00	
Oct. 25		33.05	32.35	31.65	31.35	31.30	31.00	
Oct. 26		33.27	32.60	31.75	31.62	31.45	31.12	
Oct. 27		33.05	32.45	31.75	31.55	31.37	31.10	
Oct. 28		32.85	32.30	31.60	31.45	31.30	31.10	
Oct. 29		33.00	32.42	31.70	31.47	31.35	31.07	
Nov. 1		33.20	32.47	31.70	31.52	31.35	31.00	
Nov. 2		33.25	32.50	31.75	31.55	31.32	31.00	
Nov. 3		33.32	32.57	31.72	31.55	31.35	31.00	
Nov. 4		33.55	32.75	31.90	31.67	31.45	31.05	
Nov. 5		33.70	32.75	31.90	31.62	31.45	31.05	
Nov. 8		33.55	32.65	31.77	31.55	31.40	30.75	
Nov. 9		33.60	32.67	31.75	31.50	31.30	30.95	
Nov. 10		33.60	32.60	31.75	31.45	31.27	30.95	
Nov. 11		33.95	32.70	31.80	31.55	31.32	30.95	
Nov. 12		33.95	32.67	31.67	31.40	31.30	30.95	
Nov. 15		34.45	33.12	31.92	31.60	31.40	31.02	
Nov. 16		34.55	33.37	32.05	31.57	31.40	31.05	
Nov. 17		34.95	33.65	32.35	31.80	31.65	31.30	
Nov. 18		34.95	33.65	32.45	31.92	31.80	31.30	
Nov. 19		35.10	33.85	32.82	32.17	31.90	31.40	
Nov. 22		35.30	33.95	33.05	32.45	32.00	31.75	
Nov. 23		35.45	33.95	33.07	32.55	32.15	31.75	
Nov. 24		35.22	33.70	32.70	32.30	32.00	31.65	
Nov. 26		35.20	33.57	32.57	32.20	31.85	31.35	
Nov. 29		34.70	33.40	32.30	32.10	31.62	31.20	
Nov. 30		34.70	33.50	32.30	31.95	31.60	31.15	31.20
Dec. 1	34.50	33.40	32.20	31.85	31.55	31.10	31.10	
Dec. 2	34.95	33.65	32.55	32.05	31.65	31.27	31.10	
Dec. 3	35.25	33.82	32.72	32.20	31.80	31.37	31.30	
Dec. 6	35.22	33.70	32.57	32.10	31.75	31.37	31.30	
Dec. 7	35.30	33.65	32.45	32.00	31.75	31.35	31.12	
Dec. 8	34.85	33.20	31.90	31.55	31.52	31.20	31.10	
Dec. 9	34.70	33.00	31.85	31.52	31.42	31.15	31.10	
Dec. 10	34.70	33.05	31.97	31.60	31.55	31.15	31.00	
Dec. 13	34.67	33.17	32.05	31.60	31.40	31.05	31.00	
Dec. 14	34.70	33.25	32.02	31.62	31.45	31.10	31.10	
Dec. 15	34.85	33.62	32.37	31.90	31.80	31.25	31.15	
Dec. 16	35.30	33.95	32.80	32.30	32.00	31.50	31.40	
Dec. 17	35.50	34.35	33.10	32.55	32.25	31.70	31.50	
Dec. 20	35.65	33.85	32.70	32.25	32.00	31.60	31.40	
Dec. 21		34.15	32.95	32.42	32.07	31.60	31.50	
Dec. 22		34.02	32.85	32.32	31.97	31.55	31.52	
Dec. 23		34.00	32.85	32.42	32.07	31.57	31.50	

See footnotes at end of table.

LIVE BEEF CATTLE: CLOSING FUTURES PRICES ON THE CHICAGO MERCANTILE EXCHANGE, BY FUTURE, DAILY
OCT. 1, 1971-JAN. 20, 1972—Continued

[Dollars per hundredweight]

Date	1971			1972				
	October	December	February	April	June	August	October	December
Dec. 27 -----		34.15	32.90	32.40	32.10	31.57	² 31.52	-----
Dec. 28 -----		34.45	33.20	32.75	32.15	31.60	31.70	-----
Dec. 29 -----		34.20	32.90	32.50	32.10	31.50	31.50	-----
Dec. 30 -----		34.22	32.95	32.52	32.20	31.60	31.60	-----
1972								
Jan. 3 -----		34.25	32.85	32.55	32.15	31.65	¹ 31.62	-----
Jan. 4 -----		34.80	33.30	32.90	32.52	32.00	32.90	-----
Jan. 5 -----		35.20	33.65	33.22	32.80	32.22	32.07	-----
Jan. 6 -----		35.07	33.55	33.15	32.75	32.25	32.02	-----
Jan. 7 -----		35.30	33.75	33.32	32.95	32.22	¹ 32.10	-----
Jan. 10 -----		35.50	33.82	33.40	33.05	32.32	32.12	32.00
Jan. 11 -----		35.35	33.75	33.35	32.95	32.17	32.10	32.25
Jan. 12 -----		35.80	34.22	33.65	33.17	32.35	32.25	32.35
Jan. 13 -----		36.15	34.70	33.95	33.37	32.52	32.55	32.45
Jan. 14 -----		36.37	34.92	34.22	33.60	32.90	32.80	32.75
Jan. 17 -----		37.05	35.60	34.82	34.25	33.40	33.37	33.25
Jan. 18 -----		36.15	¹ 34.57	¹ 33.82	¹ 33.25	32.40	¹ 32.37	32.35
Jan. 19 -----		36.65	34.60	33.60	33.15	32.45	32.20	32.32
Jan. 20 -----		36.00	34.77	33.72	33.25	32.75	32.45	32.52

¹ Asked price.

² Bid price.

³ Nominal price.

Mr. DENHOLM. If there are no further questions of the witness, that will be all, Mr. Caldwell.

Thank you.

Mr. CALDWELL. Thank you, sir.

Mr. DENHOLM. The next witness is Mr. Donald B. Conlin, chairman of the board of the New York Cotton Exchange.

Is Mr. Conlin present?

STATEMENT OF DONALD B. CONLIN, CHAIRMAN OF THE BOARD,
NEW YORK COTTON EXCHANGE; ACCOMPANIED BY F. MARION
RHODES, PRESIDENT

Mr. CONLIN. Mr. Chairman, my name is Donald B. Conlin. I am the chairman of the board of the New York Cotton Exchange and am here today to express the exchange's objections to the passage of H.R. 7287, a bill to abolish futures trading in Irish potatoes. It seems to me that this bill neglects to consider the highly effective, useful and cost-cutting role which futures trading has come to play in our country's marketing system.

A key to progress in our society has been the evolution of new and improved market institutions to channel the flow of capital into productive uses and expedite the movement of goods and services. As university specialists agree, one of the most highly developed and effective marketing mechanisms is the organized commodity exchange or futures market.

A brief glimpse of the origin of futures tells us a good deal about the value of this unique trading instrument. By and large, futures markets were developed to meet clear and pressing needs. Time and again, crisis situations in individual commodities proved to farmers,

merchants, shippers and users how urgent it was to have protection against extreme price risk.

Familiarly, futures came into being first as a hedging device, or a means by which people in the chain of production and marketing could transfer unwanted risk to others—speculators—who wanted to carry such risk in the hope of profiting thereby. This speculation also became the means of financing indefinitely large stocks. A hedged commodity becomes safe and sound collateral for bank loans to those who must carry a wide range of agricultural produce and many industrial commodities.

It is commonly known that, because trade and industry people can offset risks in futures, they achieve cost savings which are passed on to consumers. It is less widely appreciated that futures function in many other ways to add efficiency to the marketing system and hence deliver goods more cheaply to the ultimate buyer.

For example, when the price seems right in futures, a farmer may use this market to fix the selling price on a desired portion of his crop. A merchant may buy or sell a particular variety readily at a price based on futures. An industry user may decide a time to cover forward requirements in distant futures.

People have become increasingly aware of another valuable contribution of futures—its role as a nerve center of information in a particular commodity market. Prices quoted in futures markets are generally deemed the truest barometer of market conditions. And the commodity exchanges on which futures are traded help to widely disseminate market news pertaining to crop prospects, inventory level, rates of consumption and trade, et cetera. As Dr. T. A. Hieronymus of the University of Illinois has pointed out:

... The existence of futures markets increases the knowledge of producers (farmers) about market conditions and thus puts them in a more equal bargaining position with purchasers.

An active futures market keeps merchants, warehousemen and processors from preying on producers by maintaining a competitive balance. Merchants and others buy as cheaply as possible. The main opposition they face in their efforts to buy cheaply at harvest is offered by speculators in futures markets. They offer competition to merchants by bidding prices up to levels at which merchants no longer consider commodities cheap and so hedge (seek price insurance). In addition, they offer producers opportunities to hedge instead of selling.

As trade and industry people well know, speculative activity has broadened commodity markets and thus made them more accurately responsive to all price-making developments. Some people are concerned, however, that speculation may at times exaggerate price swings. University studies cast doubt on that conclusion.

As pointed out in a recent commodity book by three California State College professors, there is still some doubt about the impact of speculative activity on price movement, but—

... the weight of evidence to date indicates that speculation probably does more to smooth price fluctuation than to increase it. Even the demise of the much maligned onion market did something to prove this point. The fluctuations in the price of cash onions apparently were greater both before there was a futures market and after it was prohibited than while the market was functioning ... (Teweles, Richard J.; Harlow, Charley V.; Stone, Herbert L.; *The Commodity Futures Trading Guide*, McGraw-Hill Book Company, 1969.)

The recognition of the role of organized commodity exchanges applies to futures trading in Irish potatoes just as it does in futures trading in wheat, feed grains, cotton, et cetera. It seems to me that critics of potato futures essentially misunderstand its function as an advanced marketing device.

Abolition of potato futures will not do away with price fluctuations due to inevitable variations in supply and demand factors. It would simply force producers, processors and large consumers of potatoes to revert to less desirable and more costly forms of forward contracts that preceded the development of futures markets.

I would like to thank this committee for allowing me the opportunity to express the views of the New York Cotton Exchange on H.R. 7287.

Mr. DENHOLM. Thank you very much, Mr. Conlin, for your statement.

Are there questions of the witnesses by the members of the committee?

(No response.)

Mr. DENHOLM. There are no questions at this time. We thank you very much for appearing and making your statement for the record.

Mr. CONLIN. Thank you.

Mr. DENHOLM. Chairman Foley asked me to mention to the remaining witnesses that have not testified that we may not complete all testimony from all present in the time allotted here today. We shall take testimony from each one of you and in the interest of time reserve questions until all have been heard. So, if Mr. Donald Tierney is present, we shall be pleased to receive his testimony at this time.

Mr. Tierney?

(No response.)

Mr. DENHOLM. Then we shall go to the next witness—is Mr. Clarence A. Parr of Idaho present?

STATEMENT OF CLARENCE A. PARR, BURLEY, IDAHO

Mr. PARR. Mr. Chairman, members of the committee, my residence address is Route 1, Box 209, Burley, Idaho.

First, let me say that it is indeed a pleasure for me to once again appear before your committee. I believe this appearance to be about the fourth or fifth, the latest of which was as recent as September of 1971, to offer testimony on H.R. 8397, sponsored by Congressman Sisk.

I think it would be proper at this point to acquaint the committee as to my background and vocation. So I will begin by saying that I am a farmer, and I do raise potatoes, approximately 500 acres yearly. I grow potatoes both on a firm forward contract basis to processors and for the open market.

I served as president of the growers organization that I am here to represent during the years 1967-68, and at that time stepped down to the vice presidency in charge of bargaining. This means that my responsibilities included and were primarily aimed at developing and guiding the bargaining effort of Potato Growers of Idaho, Inc., for

preseason contracts with all Idaho processors for a total of nearly 40 million hundredweight annually.

I held this office until December of 1971. In addition, I am presently serving as a vice president of the National Potato Council. Potato Growers of Idaho, Inc., is a nonprofit association of producers organized within the State of Idaho and numbers approximately 1,700 of the State's approximately 2,500 producers. It is the largest potato growers organization in the State, and the only one that confines itself purely to potato growers. I would like to submit as evidence of this membership at this point a complete membership roster of Potato Growers of Idaho, Inc.

Mr. FOLEY (now presiding). Thank you very much. We shall not be able to publish it, but we would like to have it for the file.

Mr. PARR. Thank you, Mr. Chairman.

(The document above-referred to was received and may be found in the files of the subcommittee.)

Mr. PARR. Mr. Chairman, I appear here today at the request of the board of directors of the above-named organization and for its current president, Mr. Leonard Schritter of Aberdeen, Idaho. Post office address of the organization is P.O. Box 949, Blackfoot, Idaho.

I know of few questions that solicit as much debate as the question that is before you here today. Prior to the opening of the Idaho contract in Chicago, most Idaho growers gave little attention to the problems and burdens of the Maine potato industry that have apparently been brought on by trading on the New York Mercantile. Then in late April and early May of 1970 and 1971, because of particular instances of what has been described by some as manipulation, the problems suffered by the potato industry in Maine suddenly became very evident to Idaho potato industry people.

In reviewing the minutes of meetings of the State Board of Directors of Potato Growers of Idaho, Inc., we find that in the period from June 19, 1970, to December 30, 1971, an affirmative vote in support of elimination of futures trading was gained five times. On November 31, 1971, a resolution was passed by the membership to eliminate trading in Irish potato futures, and I would like to submit into evidence at this time a copy of that resolution.

Mr. FOLEY. That will be received. Thank you.

Mr. PARR. In the interest of time, I think I shall refrain from reading the resolution. I shall submit it for the information of the committee.

Mr. FOLEY. Thank you.

(The document above-referred to, follows:)

RESOLUTION No. 21

Whereas, the State Board of Directors of Potato Growers of Idaho, Inc., have repeatedly voted in favor of elimination of trading in potato futures; and

Whereas, events over a period of the last two years has signaled repeatedly, that trading of Idaho potatoes on the Chicago Mercantile Exchange has been detrimental to normal marketing patterns: Therefore be it

Resolved, That the membership of Potato Growers of Idaho, Inc., instruct Idaho's Congressional delegation to support legislation now before Congress to eliminate trading in Irish potatoes.

Dwayne Skogsberg moved for passage of Resolution No. 21; motion was seconded by Virgil Bates and passed by the membership.

Mr. PARR. In May of 1971, Governor Cecil Andrus, Governor of Idaho, did in fact activate that portion of the trading rules of the Chicago Exchange that says, and I quote:

Specifications shall be fixed as of the first day of trading of a contract except that all deliveries must conform to government regulations in force at time of delivery. If any Federal or State of Idaho governmental agency issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such governmental orders.

I also offer for the record, Mr. Chairman, a photostatic copy of that wire from the Governor of the State of Idaho to Mr. E. B. Harris of the Chicago Mercantile Exchange.

Mr. FOLEY. Without objection, it will be received.

(The document above-referred to, follows:)

OFFICE OF THE GOVERNOR.

President EVERETT HARRIS,
Chicago Mercantile Exchange,
Chicago, Ill.

Pursuant to Rule 1910 of the Idaho Russet Burbank potato contract on the futures of the Chicago Mercantile Exchange, I, Cecil D. Andrus, Governor of the State of Idaho do hereby direct that "all clearing members with open short commitments may proceed with intentions to deliver up to 11 a.m., May 24. I have found it necessary to take this action because Idaho growers and shippers have lost 3 days filling legitimate contracts, through no fault of their own, because of a railroad strike.

The strike penalized the Idaho potato producer. This action is ethical and proper and pertains only to the time lost due to the railroad strike.

CECIL D. ANDRUS, *Governor.*

Mr. PARR. The purpose and the point that I am trying to make here is that the Governor did, in fact, ask for a 2-week extension for a delivery period on the May contract. He did, in effect, a number of times attempt to contact officials in the Chicago Mercantile Exchange and had absolutely no response until such time as he did activate this rule of the Chicago Mercantile and did issue an order to extend the time of the delivery 3 days.

The Governor did issue a ruling on about May 21 extending the time for deliver on the May contract to 11 a.m., May 24, 1971, an extension of 3 days. This ruling or order was preceded by repeated requests to the Chicago Mercantile Exchange that the governing body of that exchange extend the time for May deliveries. We have to analyze very closely this great Idaho industry to discover the reason why such action was necessary.

One of the very basic reasons for our objections to trading in Idahos at the outset was the lack of adequate facilities for delivery if conditions were such that it became necessary. Of course, we had been advised that "you never want to deliver on a true hedge."

Actually, the Idaho potato industry is not geared for delivery in this manner. Over a period of years, the physical facilities for grading and packing have diminished to the point that only about 125-130 shippers are presently operating for delivery to the fresh market. This number is entirely adequate for the type of orderly marketing program that Idaho attempts to maintain. However, when situations arise, as was the case in May of 1971, where alleged manipulation of the futures market forced the actual physical delivery on futures

contracts, all facilities are overtaxed, and we are still feeling the adverse results of this entire fiasco, as some shippers failed to supply normal markets, in favor of the more lucrative position of grading and packing for delivery to the May contract.

Keeping in mind that most of the entrepreneurs on the subject of futures markets, especially members of the academic community and brokers, continually state that you should never deliver on a contract, we still would like to call to the attention of this committee, the extreme vulnerability of Idaho growers who may some day again be forced to deliver and when they're in that corner, I am sure they will find little sympathy from shippers that are asked to pack for them.

At the time in May 1971, when so many deliveries were forced, I received a call from a very close friend that I work with in the National Potato Council. He happens to be an Oregon potato grower who was short on the Idaho board, and wanted to know if I would pack for him for delivery on the May Idaho contract. Needless to say, I was delighted to tell him that I had no facilities whatsoever for grading and packing.

The downward pressure influence exerted on the Chicago cash market by deliveries to the board as was the case in May of 1971 can be documented, as evidenced by reports from Federal State Market News, and there are some who insist that demoralization of the market at that time was a major factor leading to one of the most disastrous marketing years ever experienced by the California potato industry.

Mr. Chairman, I would like to offer for your consideration a number of documents here to substantiate this downward pressure that was exerted by deliveries, forced deliveries, to the board. If you would please, I would like to have them distributed to the members of the committee so that they can go along with me and we establish a fact.

Mr. FOLEY. Are you offering them also for the record?

Mr. PARR Yes, sir.

Mr. FOLEY. They will be received. The staff will distribute them. We may have to make a judgment with respect to the record as to whether insertions of this kind are more appropriate for the files than for the record. But at this point, they will be received for the consideration of the committee.

Mr. PARR. Fine; thank you.

I am going to offer three documents, Mr. Chairman. One covers the period from May 1 and May 2 of 1971 down through May 28 of 1971. The other document covers the period from April 2, 1970, through May 26 of 1970.

The other document covers the period from April, the first of April 1969, to May 11 or 12 of 1969.

Mr. Chairman, in regard to that period in 1971 that I shall refer to first, in order to make my point, I would like to refer you to the document that mostly is concentrated in the May market of 1971. If you will note, and the point I am trying to make here is the downward pressure influence, as I have said, of forced deliveries to the board of the Chicago cash market on potatoes.

On the date of May 18, which encircled on the copies that you have, we have several cars in Chicago, as is noted on this document, that had a cash price of \$6. If you will glance on down to the date of May 28, a short period of 10 days, the Chicago cash market on Idaho potatoes is standing at \$4.25.

Mr. Chairman, in 10 days we lost \$1.75 off of our cash market value in Chicago. And I think that this is directly indicative of the type of pressure that you can get on these markets.

Now, if you would please refer to that document covering the period of April 1970 and May 1970, the attempt here is to show what happens in cases of manipulation prior to the closing of the board. And this also happened in 1970.

On May 27, we had a cash price in Chicago of \$6.15-\$6.35. The selling price, or the closing price, on the Chicago Mercantile on April 29 was \$6.58. On May 8, our cash price in Chicago had dropped to \$5.50 and the futures settling on that day was \$5.58, a drop of \$1 in that short period of time.

Further on in my testimony, you will see the reasoning behind why I wanted to submit this document on what happened in May of 1970. In contrast to this, if you will take note of the document covering the period April or May of 1969, you will see how smooth our marketing is during that period. There was no apparent attempt at manipulation in the Chicago market in 1969, and you will see in this that this is borne out in the document through April and May of 1969.

It seems to me that in this instance, we have the classic example of market disruption with a few growers electing to use the futures market as a true hedge and being caught in the middle of a speculative power play. The industry as a whole would have been far better off if those who hedged had bought their way out, rather than deliver.

Under no circumstances do I intend to portray myself as an expert witness in these proceedings. I am certain that all of the technical data necessary to support this legislation will be presented by witnesses to follow. However, I would like to say that in preparation for my appearance here today I did review the testimony offered during hearings in the Senate on this same proposed legislation in September of 1963, and I must say at the outset that it was alarming to me to find that the Congress did not respond at that time to legislation that was firmly supported by the American Farm Bureau Federation, the National Grange, the National Council of Farmer Cooperatives, Farmers Union, National Potato Council, United Fresh Fruit and Vegetable Association, and a multitude of State and local organizations. Of 14 farm and marketing organizations either offering testimony or filing statements at the house hearings on companion legislation, H.R. 904, only one was in opposition to the legislation and that one was the New York Mercantile Exchange.

Even abundant amounts of speculation still leaves one perplexed as to how this particular piece of legislation failed to become law. Even in the face of reports from the academic community similar to the one handed down by the Department of Agriculture on H.R. 7287, which, in effect, are telling potato industry people that they do

not know their own minds, and they are going to have it whether they want it or not, it cannot bring me to believe that the Congress does not desire to respond to the wishes of the people.

If I have left the impression that 1971 was the only year we have had troubles in Idaho as a result of futures trading, I would like to go back to May 1970, and look at what happened on what we in Idaho refer to as Black Friday. Again, Federal State Market News Service reports show the downward influence exerted on the market. In this particular instance, it is reported and fairly well substantiated that one person who was short on the board bought cash track in Idaho, rolled unsold into Chicago and sold at a loss to break the market. The futures followed and he was able to get out of his short position without any substantial overall loss.

Many growers who have updated air and humidity controlled storages—including myself—capable of holding Idaho Russetts almost the yearround felt the economic bite of this maneuver, and they feel as if they had been cheated by a condition other than supply and demand.

Mr. Chairman, I happened to have on hand, in my particular storage, at that particular time 40,000 hundredweight of potatoes that I had carried almost completely through the storage season, and this is an expensive operation. I actually would expect some kind of good price. If supply and demand were to knock me out of that price, I would understand it, but when manipulation knocked me out of \$1 a hundredweight on 40,000 hundredweight, it is a pretty deep bite to take.

I have found in discussing futures trading with growers that the vast majority are unable to set aside the necessary time to become familiar with the market and how it operates. One grower even said to me, and I quote: How, for hell's sake, can you sell something you don't have?

Now, I am sure there is an answer, but I am also just as sure the answer would bring about additional very valid questions. Other growers say, and I quote: If these people want to gamble, why don't they go to Las Vegas? At least, it won't affect the price of something I worked all year to raise.

And then we have growers who also say: This is a marketing tool that can serve a useful function. Why try to legislate it out? I don't deny that the last question is true at specific times, but we feel in Idaho that in view of what has happened—and there is absolutely no valid reason for believing it won't happen again—why jeopardize the interest of the entire industry just to provide an alternate market for so very few growers?

Mr. Chairman, it is my personal conviction that product representation on any futures market that confines itself to a specific State or area of origin should not be allowed without some sort of referendum procedure in that State or area. The growers in Maine do not want their product traded. The growers in Idaho do not want their product used as pawns in a game of chance, and I urge that the committee give favorable consideration to this much-needed legislation.

Thank you, Mr. Chairman.

Mr. FOLEY. Thank you very much, Mr. Parr. We appreciate your statement. It has been detailed and, I think, helpful to the subcommittee. If you would stay in attendance in the committee room, we shall look forward to calling you back at the conclusion of a few more witnesses for questioning by the members.

Mr. PARR. Mr. Chairman, I also have been asked to appear here today for the Idaho Grower Shippers Association. I would like to read into the record the letter I received from the executive manager of that association and their resolution and the results of their poll.

Mr. FOLEY. If it is not too lengthy.

Mr. PARR. Oh, no; it is very short.

Mr. FOLEY. I think you appreciate that we have a number of witnesses who have come from long distances. We want to give everybody an opportunity to testify.

Mr. PARR. Yes, sir; I appreciate that. I have also been asked to enter the testimony of the National Potato Council, which will follow immediately after this very short presentation of the Idaho Grower Shippers Association, if that is all right.

Mr. FOLEY. Very well.

Mr. PARR. This letter is from the Idaho Growers and Shippers Association:

DEAR CLARENCE: The Idaho Growers and Shippers Association, Inc., hereby authorizes you to represent our membership of growers and shippers of Idaho potatoes in support of legislation to terminate futures trading in Idaho potatoes on the Chicago Mercantile Exchange.

Attached for your information and use as you see fit is a copy of our Resolution No. VIII approved at our 44th annual meeting in Pocatello, Idaho, on November 13, 1971.

I would very much appreciate a copy of the proposed legislation and your report upon your return.

Sincerely,

EDD MOORE.

Mr. Chairman, I shall not go into the length of reading the resolution, just submit it for the use of the committee.

Mr. FOLEY. Thank you.

(The resolution above referred to, follows:)

IDAHO GROWERS AND SHIPPERS ASSOCIATION, INC.,
Idaho Falls, Idaho, January 14, 1972.

RESOLUTION No. VIII

Whereas, future trading in the past has not provided the grower or shipper with a true hedge, and

Whereas, it has created confusion and lack of confidence in the actual potato market, and

Whereas, it has been apparent that manipulation of this trading medium by speculators of both the long and the short position, as well as by the Chicago Mercantile Exchange itself, has been too easily accomplished and has proven detrimental to the Idaho potato industry and to the potato industry nationwide: Now, therefore, be it

Resolved, That at the 44th annual meeting of the Idaho Grower Shippers Association, Inc. in Pocatello, Idaho on November 13, 1971, futures trading in Idaho potatoes be discontinued; and be it further

Resolved, That all efforts be made through Idaho's elected public officials and those of other states to introduce and/or support proposed legislation to abolish futures trading in Idaho potatoes.

This Resolution No. VIII was approved. In addition, all members were polled to determine their wishes in this matter. Results of questionnaires—

futures trading in Idaho Potatoes resulted in 84% favoring discontinuing trading in Idaho potatoes. This poll-vote represented nearly one-half of the membership.

EDD MOORE, *Executive Manager.*

Mr. FOLEY. Do I understand that you are now giving testimony on behalf of the National Potato Council?

Mr. PARR. Yes, sir.

First, Mr. Chairman, a letter from Mr. N. A. Falconer, president of the National Potato Council, addressed to you.

DEAR CONGRESSMAN FOLEY: Due to prior speaking engagements, I am unable to attend the hearing on potato futures.

The National Potato Council at its annual meeting held in Burley, Idaho, on December 2, 1971, passed a resolution supporting the move to abolish the trading of potato futures.

Clarence Parr, Vice President of the National Potato Council has been authorized to give our testimony.

This is testimony prepared by Mr. Doyle Burns, the executive director of the National Potato Council.

STATEMENT OF DOYLE BURNS, EXECUTIVE DIRECTOR, NATIONAL POTATO COUNCIL, AS PRESENTED BY CLARENCE A. PARR

Mr. PARR. My name is Doyle Burns. I am executive director of the National Potato Council, with office located at 301 Montbello Office Building, Denver, Colo. My testimony is in support of H.R. 7287 on behalf of the National Potato Council and the growers it represents.

The Council is the only organization in this country whose membership is made up wholly of commercial potato growers. For the past several years this organization has approved or reaffirmed its position of being in opposition to futures trading on Irish potatoes. At the most recent annual meeting, the following resolution was adopted:

In the interest of stabilizing and strengthening both the potato industry and all of agriculture, we recommend and support the following resolution:

"Resolution No. 5.

"Resolved, that the National Potato Council support legislation which would prohibit futures trading in potatoes.

"Article II, Section 1 of the Council's By-Laws contains the following phrase:

"To promote the welfare of the potato industry of the United States . . ."

This is part, and I might add a very important part, of our obligation to the potato growers of this country. Anything which affects the welfare of the potato industry is an immediate concern of the National Potato Council.

"One of the most important and perennial problems facing the potato industry has been, is today, and probably will be for years to come, price instability. The fluctuation of prices for potatoes is greater than for any other commodity, except onions.

"One of the principal reasons for the unusual price pattern is attributed to the 'static demand' for potatoes. Unlike many other food commodities, potato consumption does not increase when supplies increase. As a Nation we eat about the same amount of potatoes each year, whether potato prices are high or low.

"Agricultural economists have adopted a rule of thumb which says that for each 1 percent of excess supplies above normal con-

sumption we can expect a corresponding decline in price of 4 to 5 percent. This may not appear to be drastic, but when we are faced with an excess of 10 percent this is pictured as a 40- to 50-percent cut in the grower price. The point I want to make here is that potatoes are a highly speculative crop. Here is a product made to order for the pure speculator.

"A second important fact which must be reckoned with is that the potato grower is subject to the whims and fancies of this fluctuating, highly volative marketing pattern. It is a pattern over which he has very little control. It is also a pattern which can be and is affected by many marketing factors, both man-made and natural.

"Because of the uncertainties of potato marketing, the grower is constantly searching for ways to stabilize and strengthen the cash market for potatoes. A few years ago one bad price year did not necessarily mean disaster. This is no longer true.

"Agriculture is moving away from the trend towards diversification to one of specialization. Mechanization, labor, supply and handling costs make it imperative that the grower do everything possible to assure himself of a reasonable return for potatoes sold. The important point here is that the potato grower is at the mercy of a highly speculative market; a market that will react to rumors, manipulations, or substantial buying and selling, either current or future.

"The third point I would make is the importance of the interrelationship of prices for potatoes throughout the continental United States. The price that potatoes sell for in Maine, for example, can and does affect the price received by every other area marketing during the same period. This variation carries a certain amount of cushion most of the time, but after the spread reaches a certain point, then the price in one area affects all others.

"Thus, in trying to help stabilize the price across the country, the State or area selling at the lowest price is the first objective. For your information, the average f.o.b. price on April 10, 1971, was as follows: Maine, \$1.98; New York, upstate, \$3.00; Colorado, \$2.68 and \$2.92; Idaho, \$2.98; Oregon, \$2.88; and Dade County, Fla., \$6.00 per cwt. for new potatoes. All areas marketing were higher than Maine from 70 cents to \$1.02 per cwt. on old crop potatoes.

"Does this mean that because Maine is one of the two States operating under futures trading, they are being penalized from 70 cents to \$1.02 per cwt. on every sack they sell? This is not completely true. However, there is a good possibility that a substantial part of this difference could be attributed to futures trading. Certainly, something is radically wrong when potatoes from across the continent in Oregon will sell for over \$1.00 per cwt. more than those in Maine.

"Earlier I pointed out that the potato market is a fickle, fluctuating, easily influenced business. Naturally, when growers begin to think in terms of stability any service which would provide a hedge would be looked upon as a benefit. A hedge would help to take part of the risk out of the business for the grower.

"Proponents are quick to point out that futures trading provides a hedge for the potato grower. This is true and a limited number of

growers are attempting to use futures for this purpose. There is another element involved in futures trading, however, that nullifies any advantage to be gained by hedging, and this is the pure speculator. Almost four out of every five people trading potato futures are in for the gamble and not for the business of selling a crop they have raised or buying a crop that they will process or pack. Take the pure speculator out of potato futures trading and this thriving enterprise would fold.

"This is not a blanket condemnation of all futures trading. There are other commodities that, because of the nature of their utilization and marketing pattern, could and probably do benefit from such trades. Potatoes are, because of their peculiar utilization and marketing weaknesses, an easy prey to manipulation, rumors, and deliberate market management.

"The very weaknesses inherent in the potato marketing picture are the factors which make potatoes so attractive to speculative interests. No one to whom speculation is a way of business wants an inactive market. Highs and lows are their stock in trade and those same highs and lows are the weaknesses that can spell disaster to the potato grower.

"Let's take another theoretical example. The delivery date has arrived for a certain series of contracts. Coupled with this we have a market that is full to the limit with cash sales being made by those who normally sell. As deliveries are made on futures contracts, the speculator is stuck with the last things he wants, the potatoes. The only thing he knows to do is sell, take his loss and get out. Now, if there is any large amount to be handled in this manner, the market immediately reacts to too many potatoes and the effect of futures has made itself known to the cash market.

"There are two groups of people who make use of futures trading on potatoes, the hedger and the speculator. The hedger is in the market for a sound economic reason. It is an insurance policy for him. The speculator generally has no ties to the industry. His only concern is to buy cheap potatoes and sell at a high price. Rumor, fact or fancy, anything that will help him to achieve his goal, are tools of his trade.

"The price of Maine potatoes does influence the price elsewhere. A panic on the futures market does affect the current cash market. The deliveries on future contracts do weaken and demoralize the cash market. Rumors, volume sales, and manipulations can cause prices to drop or rise, all of which is not in the best interest of the growers, handlers, or the consuming public.

"I respectfully ask that this Subcommittee on Domestic Marketing give due consideration to H.R. 7287 and report favorably at the earliest possible date."

Mr. Chairman, that completes my testimony. In closing, I would like to thank the committee for listening to such lengthy testimony. I would liked to have found some way to cut it short, but it was impossible.

Mr. FOLEY. Thank you very much, Mr. Parr. We hope to have you back for a few minutes before the conclusion of the hearing to offer the opportunity to subcommittee members to ask any questions if

you would stay in attendance while we conclude with the next witness, at least. We hope to call you back.

The next witness will be introduced by our distinguished colleague, a member of the full committee, the gentleman from Minnesota, Mr. Bergland.

Mr. BERGLAND. Thank you very much, Mr. Chairman.

While I am not a member of this subcommittee, I certainly do have a deep and abiding interest in this particular bill, because I represent the Minnesota side of the Red River Valley of the north, one of the truly great potato growing regions of the United States. I urge passage of this pending legislation.

It is my pleasure to introduce a constituent of mine, a man whom I have known for a long time, whose judgment is sound, and whose advice and counsel I seek and heed. It is my pleasure to introduce a very close personal friend, Mr. Merle Anderson from Climax, Minn.

Mr. FOLEY. Mr. Anderson, if you will come forward to the witness table, we will be very happy to hear your statement at this time.

STATEMENT OF MERLE ANDERSON, PRESIDENT, NATIONAL POTATO COUNCIL, CLIMAX, MINN.

Mr. ANDERSON. Thank you, Mr. Chairman. I am not going to submit a lengthy statement. I think the testimony to come from the many other segments of the potato growing industry in the United States will bear out the point and my presence here, I hope, bears out our concern for the matter at hand here.

My name is Merle Anderson. I am from Climax, Minn., in the Red River Valley of Minnesota and North Dakota. I am the immediate past president of the Red River Valley Potato Growers Association and the vice president of the National Potato Council.

The Red River Valley is a major producing area with 1,300 growers producing 30 million hundredweight of potatoes from 190,000 acres.

At the June, 1971 annual meeting of the Red River Valley Potato Growers Association, the membership in attendance voted unanimously to support Maine potato growers in their opposition to trading Maine potato futures.

I have been given the responsibility of informing the committee of our growers' position and to request your support of H.R. 7287.

We of the Red River Valley are searching for answers to better marketing conditions but we do not feel that futures trading lends itself to orderly marketing conditions. Over the years we have been offered the opportunity to have our product subject to futures trading. The proposal has always fallen on deaf ears and I am sure that we would not accept the futures trading concept at the present time. This is backed up by the fact of the evidence that the States of Maine and Idaho are opposed to the futures trading of their potatoes.

Our Red River Valley area has expended considerable effort and moneys to extend our storage and shipping season. We do not appreciate the fact that delivery on futures contracts does hold back

shipments that could otherwise be earlier, under more normal movement of potatoes.

The National Potato Council has for years supported the effort to eliminate futures trading of potatoes. This is the voice of the potato industry. This means the potato industry across this great country has joined arms to solve an industry problem. I would hope that this Congress would see fit to approve this legislation.

Mr. FOLEY. Thank you very much, Mr. Anderson. We appreciate having your statement in behalf of your area and as a former officer of the National Potato Council. If you also could remain this morning, we hope to bring you back to the witness table for questions.

Mr. ANDERSON. Thank you.

Mr. FOLEY. The next witness will be Mr. Donald Collins of Caribou, Maine.

Mr. Collins.

STATEMENT OF DONALD COLLINS, CARIBOU, MAINE

Mr. COLLINS. Mr. Chairman, members of the committee, my name is Donald F. Collins, and I am a resident of Caribou, Maine. I am engaged in the retail lumber and building material business and also serve as the director of a local commercial bank. Aside from my business activity, I am a representative to the Maine State Legislature. In this capacity, I sponsored a joint resolution memorializing the Congress to abolish futures trading of potatoes on the New York Mercantile Exchange. After a public hearing before the State Government Committee, this resolution passed both houses without a negative vote being recorded. Thus the Maine Legislature supported the viewpoint developed by a substantial majority of Maine potato growers.

I should like to report to you as a businessman living in the heart of the Maine potato country that the potato growers are in desperate circumstances. I suspect that nearly half of them have a minus net worth and the number of growers who will have to discontinue operations will increase this year, continuing the trend of the last few years.

The problems of Maine potato growers are legion and I do not believe that elimination of futures trading will resolve all the problems. However, there is no doubt in my mind that futures trading is distorted by speculation. It does tend to concentrate sales in the trading months, which contributes to a poor marketing program. I think the growers who provide the commodity that is being traded on it to have the right of operating without a futures margin and I would hope that this committee and the Congress would make this possible.

Thank you.

Mr. FOLEY. Thank you very much, Representative Collins. The Chair wishes to express his apology. It escaped my notice that you are a member of the Maine Legislature and usually we give some precedence to distinguished members of State legislatures. We are most happy to have your appearance here today. If you could remain

for a few minutes, we will hope to bring the witnesses back for some questions.

Thank you very much.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. FOLEY. The next witness will be Mr. Richard L. Bushman of St. Louis, Mo.

STATEMENT OF RICHARD L. BUSHMAN, ST. LOUIS, MO.

Mr. BUSHMAN. Mr. Chairman, members of the committee, my name is Richard L. Bushman. I am president of H. L. Bushman and Sons of St. Louis. We are brokers of fresh fruits and vegetables engaged in business since 1938, as well as marketing crops of potatoes, and engaged in shipping potatoes. I would like to appear before you on the affirmative side of bill H.R. 7287.

As far as our opinion is concerned, trading in potato futures is nothing more than legalized gambling, with the trader having a 50/50 chance of winning and the broker in the position of a houseman taking a cut from both the winner and the loser. If figures are at the disposal of this committee, I am sure you will find that approximately 90 percent of the trades are made by parties not engaged in the growing, shipping, selling, or distribution of potatoes. The remaining percentage are possibly people engaged in the potato business who, for the most part, have no intention of delivery or taking delivery of their trades.

There is no question that the rapid unwarranted gyration of the potato future market has a confusing and depressing effect on the people actually engaged in movement and marketing of potatoes. As an example, a farmer whose business is growing potatoes is quite bewildered to find his marketing agent advising him what his potatoes will net to him on a given day of January while the May future market is several dollars per hundred over this figure. It is also quite bewildering for a buyer to buy potatoes at a figure and see the future market take an extreme drop in price.

Why won't a buyer use the commodity market as a source of dependable supply? First, a retailer or wholesaler has to have the product on his shelves to sell it. Second, a retailer or wholesaler has to have a dependable source of supply of the quality suitable to his business. This is not available from the commodity market. The grade of U.S. #1 covers a multitude of sins. It is not unusual to see a wide range in appearance, size, and quality packed by different growers and packers. Most buyers know what they need and get it from the shipper best able to supply their needs. The deliveries made from the commodity market are delivered at the last half of the month. There is no way to assume you will receive your deliveries on the first or last day of tender dates or if you will receive all deliveries on the first or last day of tender dates or if you will receive all deliveries at once or spread out.

Why doesn't the seller use the board in a lot of instances to hedge his crop? First, the farming is a big enough speculation. Second, it takes margin and if the board goes against him, it takes more mar-

gin. In most instances, his crop is mortgaged to the hilt until sold, delivered, and returns received. The cars offered for delivering must make grade at shipping point. If the buyer chooses, he may select any of the approved delivery points, and it is quite possible the car will not be in grade at the given destination. This change in grade is caused generally by delays in transit and weather conditions during transits. If a car fails to grade, it must be replaced or an adjustment made. With a short delivery period, this is not always possible.

In 1970, the use of potato people involved in the future trade was greatly reduced. Normally, it would be expected for shippers to hedge their product and be in a short position while buyers, to be in a long position, expected to take supplies. It is quite interesting to note that positions of shippers; warehousemen, receivers and processors are in both long and short positions and in many cases heavy on the opposite of the market that would be expected if it was being used as a business interest.

Markets can be and have been moved in either direction on the future board by speculators and scalpers. This gyrations has nothing to do with the market of or supply of potatoes. It just tends to add to utter confusion to the people engaged in the potato business that do not trade on the board or understand the board.

It would be much better if people moving potatoes would not even look at the figures on the board. It affects their reasoning and judgment.

Potato movement out of sections of the United States not having future trading, price and move their product in accordance with the supply and demand. If Maine overprices itself because of a high price on the board, the movement is held back and other sections move into the normal Maine markets. This will finally create oversupply at the end of the deal on Maine potatoes and create a much lower price than is realistic. If board prices are low, the buyer will quote board figures in an attempt to get lower prices which will depress the cash price and again slow movement because of reluctance of grower to sell at these alarming low prices.

Again, I will say farming is the biggest gamble in the world. The farmer has enough problems with weather, insects, and disease without being confronted with future market controlled and moved by people having no interest in a product other than trying to make a profit on numbers and not a product. If the Government is going to continue to look at support prices, school lunch programs and the like, it seems that all possible advantage should be given to help move the potato crop of Maine in an orderly manner, at a reasonable price, and without outside nonconnected influence.

The trading in potato futures does not affect our business one way or the other in the capacity of brokers. Being shippers in the Midwest, the board does not affect our business, as the potatoes packed are not generally affected by the Maine commodity board. We broker Maine potatoes in the Midwest and see the problem of the movement of Maine potatoes when there is an unwarranted price on the board. When Maine potato prices are unrealistic to supply and demand or supply is not available into the areas we mainly sell Maine potatoes, the potato supplies are received from Wisconsin, Michigan, Minne-

sota, Indiana, Ohio, New York, or other areas that are not bewildered by problems created by an unrealistic situation caused by a market made by people having no interest, other than a fast dollar, gambling on a product they know nothing about, but which affects the economy and livelihood of a whole industry and their people in one or more sections of the country.

Just to add as a closing remark, as I sit here, and I do not know if I am in order, and listen to the very biased testimony of Mr. Alex C. Caldwell, who was here in his position as representative of the Administrator in the Commodity Market, and taking such a biased look and apparently having a theory but no practical experience, it scares me to death that someone like this would take an opinion out of this, and I feel if he does not pull his head out of the sand and look around, we are in trouble.

[Laughter.]

Mr. FOLEY. Thank you very much, Mr. Bushman.

At this time, we have just a few minutes before the committee has to adjourn.

Mr. Bushman, if you would just remain where you are, we would appreciate it.

At this time, Mr. Parr, Mr. Anderson, Representative Collins, will join Mr. Bushman at the witness table, we will have an opportunity for a few very brief questions.

Are there any questions of any of the witnesses now at the witness table?

Mr. GOODLING. Mr. Chairman, I would like to make just one brief observation and ask one simple question. I would like any member of the panel to answer. I do not want you to take much time in doing it, because we are due over on the floor of the House.

I have been a fruitgrower all my life and I am fairly convinced in my own mind, and I am not at all certain that the chairman of this committee on my right will not agree with me, that we as fruit-growers—applegrowers, I should say—are simply producing more apples or we have been in recent years than we can market profitably. Unfortunately, in my opinion, the Department of Agriculture uses the aspirin treatment, it comes along every year and bails out the fruitgrowers or attempts to bail out the fruitgrowers. But we are destroying our market just the same as you people say we are destroying the potato market.

This is my simple question and I want a simple answer: Are the potato growers growing too many potatoes in the United States?

Mr. ANDERSON. I would respond to it. It does give us marketing problems.

Mr. GOODLING. How are we going to correct that situation?

Mr. BUSHMAN. I think it is a law of supply and demand. Sooner or later, you are going to eliminate some of them. If you cannot make a profit, you are going to go broke and wind up driving a truck.

Mr. ZWACH. Mr. Chairman, Mr. Parr, I was listening to your presentation and you feel that you can just not often justify what takes place in the market, the ups and downs.

Mr. PARR. That is absolutely correct, Mr. Zwach.

Mr. ZWACH. I am a producer of agriculture products, no potatoes, but we as producers live by stability of price. We like to have sta-

bility. We need to know where we are at. Now, what about the grain trade? By stability, they would not live at all, would they? They need ups and downs and manipulation. That is the way they make their living. It is in direct contrast to what is the real producer interest.

Is that properly a summary of your statement?

Mr. PARR. Yes, sir. I would agree with that.

Mr. ZWACH. That is all, Mr. Chairman.

Mr. FOLEY. Thank you, Mr. Zwach.

I would just make a brief comment on the question posed by Mr. Goodling. The State of Washington is a potato producing State, although I do not enjoy in my own congressional district a very large percentage of them. The Department of Agriculture in recent years sends around a recommendation that the potato growers cut their acreage by 9 or 10 percent, as I recall. But my understanding is that in my State, everybody hopes his neighbor will do that and busily goes ahead and expands acreage himself. I think the point is that there are some very difficult and real problems in the potato industry which are very closely connected with over-production and the difficulty of providing any kind of national regulation of production. Does anyone disagree with that? Apparently, Mr. Anderson agrees.

Does anybody have any disagreement with the production problems being a source of much of the difficulty of the potato industry?

Mr. PARR. My response to that would be a quotation that I remember from someplace. I think it applies right to agriculture. That quotation is, we have met the enemy and they is us.

Mr. FOLEY. One other quick question and we have to adjourn at this point. Can anyone at the table give me a rough, and I do not expect accurate estimates, of how much, for example, Mr. Parr, of the Idaho production is now being processed rather than fresh produce?

Mr. PARR. Of the total Idaho production, approximately 70 percent is purchased by processors. Of this amount, and of course, when I refer to processors, I refer to all types of processors—dehydrators, those in the french fry business—and of that, they purchase 70 percent, where actually, around 85 percent is actually processed.

Mr. FOLEY. Has the percentage of processed potatoes been rising in recent years?

Mr. PARR. Yes, sir.

Mr. FOLEY. Would you say it has been rising dramatically?

Mr. PARR. Yes, sir.

Mr. FOLEY. Does anyone have any similar figures for the State of Maine?

Mr. COLLINS. Mr. Chairman, I would only say that in the State of Maine, this is also true, the number of potatoes that are going to processors has steadily increased and it probably is around 50 percent right now, whereas perhaps 20 years ago, this figure was maybe 20 percent.

Mr. FOLEY. Mr. Anderson, do you have any rough figures from Minnesota?

Mr. ANDERSON. We are near 60 percent going to processing.

Mr. FOLEY. So apparently, this is a phenomenon in the marketing of potatoes that is reflected nationally. It is even more dramatic, I

think, in my own State, but the figures of processed potato sales are pushing to a very small percentage those that are sold in the fresh market.

I want to say in closing that the committee is aware of the great inconvenience and effort that so many of the witnesses and others in attendance have experienced in being present today for these hearings. We want to have an opportunity to hear all of the witnesses who expect to be heard today and we hope that this afternoon, we will be able to conclude the witness list. I am going to read at this point the order of appearance this afternoon and say that I hope with 10 witnesses scheduled for this afternoon that each of the witnesses will be conscious of the fact that we are not trying to save the committees' time, but we do want to make it possible for all those who have been scheduled to appear to present their statements.

The first witness will be Mr. Chipman C. Bull, followed by Headlee Wright, Gilman Albair, Vernon James, Arnold Roach, Danny Baldwin, Ronald Barnes, John Mooers, Jack Tarburton, and Dan Turner, Jr. If anybody is in the audience who expected to testify and has not been named in that list I have just announced, he should contact Mrs. Gallagher.

Mrs. GALLAGHER. They must have been left off your list—a Mr. McCaleb of the Virginia Potato and Vegetable Growers Association.

Mr. FOLEY. Very well. We will add that name to the list.

The subcommittee is now required to adjourn to the House for the presentation of the state of the Union message by the President. Because of this unusual event today, I am going to suggest that the hearings reconvene at 2:30 rather than 2:00 o'clock to allow sufficient time for the subcommittee members to appear.

I want to thank all those in attendance this morning. We look forward to hearing the testimony of those remaining witnesses this afternoon, and accordingly, the subcommittee will stand adjourned to meet at 2:30 p.m.

(Whereupon, at 12:05 p.m., the subcommittee was recessed until 2:30 p.m. of the same day.)

AFTERNOON SESSION

Mr. FOLEY. The Subcommittee on Domestic Marketing and Consumer Relations will come to order. Because of the substantial number of witnesses who are scheduled for appearance this afternoon, the Chair is not going to delay the subcommittee any further and we hope that the other members will find it possible to attend later.

At this point, we would like to call the next witness, Mr. Chipman C. Bull, from the State of Maine.

Mr. Bull?

STATEMENT OF CHIPMAN C. BULL, EXECUTIVE VICE PRESIDENT, MAINE POTATO COUNCIL

Mr. BULL. Yes, sir, Mr. Chairman.

My name is Chipman C. Bull. I reside in Presque Isle, Maine, and I am and have been since July of 1969 executive vice president of the Maine Potato Council. The Maine Potato Council is an associa-

tion organized in 1936 of commercial potato growers in the State of Maine, and its membership includes all growers in that state. The address is Box 632, Presque Isle, Maine, 04709.

I appreciate this opportunity to appear before you today on behalf of the Maine Potato Council in support of H.R. 7287 which would eliminate futures trading on Irish potatoes from commodity exchanges. My predecessors on this job have presented testimony on earlier bills with the same purpose including H.R. 7920, 84th Congress, second session (report of Subcommittee on Futures Trading in Perishable Commodities—1956); H.R. 904, 88th Congress, second session—1963; H.R. 6006, 89th Congress, second session—1966. These documents contain very complete testimony and exhibits all of which lead to the same conclusions.

Back in 1966 a subcommittee of the Committee on Agriculture held hearings in Chicago, Presque Isle, Maine and Washington, D. C. and took testimony from some 107 witnesses, many of them producers of potatoes and onions. The more recent hearings of 1963 and 1966 brought out substantially the same facts as were developed 15 years ago. All pointed to the unsuitability of the perishable commodities such as potatoes for futures trading. It should be mentioned that on H. R. 904 we had hearings before the subcommittee and the full Committee on Agriculture and in both cases the bill was favorably reported by a heavy majority. This bill had previously passed the Senate. It is not suggested that futures trading in the more storable commodities such as wheat, corn and cotton has proven detrimental to the growers, but it is abundantly clear that in the case of highly perishable potatoes price fluctuations are increased, the market is at times completely paralyzed, and the growers in Maine have been in a state of resentment, frustration and confusion for the 18 years or so since this activity fashioned a strangle hold on the industry in our State.

You recognize that the Maine farmers who produce approximately 15 percent of the potatoes in the United States are the only ones who have had to face the hazards of futures fluctuations on top of the many other problems inherent in a farmer's life over these many years. In the last 2 or 3 years there has been an attempt at trading in Idaho potatoes on the Chicago Mercantile Exchange. This trading, however, has amounted to about one-tenth the volume of that in New York. It has in fact until only recently been of little importance in the marketing picture. It is simply incomprehensible to the Maine farmers that they should be subjected to this continual harassment when farmers producing the other 85 percent of the potatoes in this country do not have it to face. In fact to my knowledge potatoes, and in this case, Maine potatoes and Idaho potatoes, is the only commodity where trading in the futures market is restricted to the production of specific States. The reason we are before you again is that over 80 percent of approximately 1,700 farmers in Maine are still struggling to make a living by producing potatoes and they have directed us to make every possible effort and to spend any available funds that may be necessary to remove the burden of futures trading from their marketing procedures. This mandate from 80.67 percent of the growers to continue the fight against futures trading was most

recently reflected in a poll taken in October, 1970, and was in line with four previous polls taken since 1957. These polls are most significant in our opinion.

We are in hearty agreement with the findings of the previously mentioned subcommittee of the House Committee on Agriculture which said in a report dated September 24, 1956:

The Committee is firm in its belief that the physical production and distribution of potatoes and onions—not the trading in futures contracts for these commodities—is the basic economic activity. Unless futures trading can be carried on without injury to this basic activity, it should be eliminated.

This might well be paraphrased to say that when the interest of gamblers conflicts with those of farmers, the latter must prevail. The committee went on to say in the same report:

In the absence of cooperative action on the part of the mercantile exchanges to effect adjustments which would make futures trading an indisputably constructive trade vehicle for onion and potato producers, and in the event any enhanced regulatory power of the Commodity Exchange Authority fails to promote clearly constructive futures market activity, the Committee on Agriculture should promptly consider legislation prohibiting futures trading in potatoes and onions.

The reference by the subcommittee to the desirability of “cooperative action on the part of the mercantile exchanges” brings to the front the apparent fact that any action by the exchange that would control speculation to the extent of eliminating unwarranted price gyrations in this volatile commodity would at the same time kill the market. We hardly expect that kind of cooperation.

On the contrary, the exchange has not appeared to accept the subcommittee’s view that the production and distribution of potatoes—not the trading in futures—is the important economic activity. This is indicated by the attitude taken by an exchange witness on H.R. 6006. In a statement prepared for presentation to the subcommittee on May 17, 1966, was this rhetoric: “I suggest you send the little boys with their marbles back home and tell them to get their houses in order.”

The “little boys with their marbles” the witness was referring to consisted of representatives of every major farm organization and highly responsible persons in the potato industry from California to Long Island and Maine.

A more recent episode threw the machinery of the exchange completely out of gear on May 8, 1970. An exchange official in commenting on this confusing market is reported to have said, “The Department of Agriculture may not like the way we do things, but our methods and activities were perfectly honest and satisfactory.” The question is, satisfactory to whom? Apparently not the USDA or to dealers in actual potatoes. The battle of the headlines began following the request for an investigation of the May 8 episode by the Commodities Exchange Authority of the USDA. In the Bangor Daily News of October 10–11, 1970, the headline reads “Potato Trading Infractions Uncovered on New York Exchanges.” The article includes information from the administrator of the Commodity Exchange Authority that a number of noncompetitive transactions on the May 1970 potato futures had been sanctioned by the exchange on May 8, 1970.

On October 13, 1970, the headline in the same daily newspaper reads "Exchange Denies Spud Infractions," and the article contains a quotation from Llewelyn Watts, board chairman of the New York Mercantile Exchange, "There were no rule infractions. The charges are based on a misunderstanding of our system."

Again on August 3, 1971, following the use of a stipulation of compliance before the Commodities Exchange Commission, the Bangor Daily News again headlined "Exchange Admits Illicit Trading," and this admission was certified to by the same Llewelyn Watts, chairman of the New York Mercantile Exchange Board, on July 15, 1971.

Mr. Chairman, with your permission, I have that stipulation of compliance which I would like to submit for the record at this time.

Mr. FOLEY. We will be very happy to receive it without objection. The Subcommittee will want to have some reservation about what is submitted for the file and for the record. We will receive it now for one or the other.

Mr. BULL. Yes, sir, I understand. I thank you for that I would like to quote just briefly from this stipulation of compliance. I am quoting now:

No complaint with respect to such violations has been issued and the said New York Mercantile Exchange is desirous of disposing of this matter by entering into a stipulation of compliance as authorized by Section 0.54 (a) of the Rules of Practice under the Commodity Exchange Act (17 CFR, Part O). Therefore, the said New York Mercantile Exchange stipulates the following facts are true:

(3) On May 8, 1970, the New York Mercantile Exchange knowingly permitted certain of its members to enter into 42 contracts of May 1970 Maine potato futures after the time for trading in that future had ended, and in a manner not in accordance with its rules governing trading in Maine potato futures.

(4) On May 8, 1970, the New York Mercantile Exchange failed to require certain of its members to comply with its rules and other requirements concerning the recording and reporting of transactions in the May 1970 Maine potato future with the result that on the next business day, May 11, 1970, the exchange was unable to report to the Commodity Exchange Authority open contract figures for such future in the form and manner approved by the Act Administrator. Instead, on the morning of May 11, 1970, the exchange advised the Commodity Exchange Authority that according to its records there were 1304 open contracts in such future, but that adjustments in that total would be necessary. Thereafter, during that day, the exchange furnished various lesser totals to the Commodity Exchange Authority, finally revising the open contract figure to 188 contracts.

The growers believe that their views and needs are not compatible with the interests of the futures brokers and the exchange itself. The observations of the 1956 subcommittee are just as valid now as when they were made about 15 years ago. We do not believe anyone would seriously contend that futures trading in potatoes has become an indisputably constructive trade vehicle.

Certainly not in the eyes of the growers as has been evidenced by the five polls.

While on the subject, I want to mention the safeguards taken to insure the honesty, integrity, and validity of these polls. The ballots on the 1970 poll were required to be signed and certified by each grower. Those representing less than 5 acres were not counted. The ballots were mailed directly to the attorney's firm of Stewart, Grif-feths and Quigley in Presque Isle, Maine, where they were counted

and tabulated, and I want to include for the record its affidavit from that attorneys' firm.

Mr. FOLEY. Without objection, so ordered.

(The document referred to follows:)

STEWART, GRIFFITHS & QUIGLEY,
ATTORNEYS AT LAW,
Presque Isle, Maine, March 23, 1972.

Re H.R. 7287.

HON. THOMAS FOLEY,

Chairman, Subcommittee on Domestic Marketing and Consumer Relations,
Committee on Agriculture, U.S. House of Representatives, Washington, D.C.

DEAR SIR: It is my understanding that your subcommittee has on file my affidavit dated October 20, 1970, certifying the results of a poll taken of Maine potato producers regarding the New York Mercantile Exchange. To clarify my affidavit and prevent any misunderstanding, I am now writing to affirm that the ballots returned by the producers were examined solely by myself or my office staff. At no time were any ballots seen by officers, employees, or members of the Maine Potato Council. At no time was anyone advised on how individual growers had voted although prior to a final tabulation of the votes I did not provide the Maine Potato Council with a list of the names of those grower members who had not returned ballots so that they could be contacted and urged to vote.

Very truly yours,

DONALD E. QUIGLEY.

STATE OF MAINE,
Aroostock, ss:

I, Donald E. Quigley, Attorney at Law, of Presque Isle, Maine, being first duly sworn, depose and say that I have personally examined all ballots returned by potato growers and voting on the proposition whether the Maine Potato Council should use what resources it has to seek elimination of trading of Maine potatoes on the New York Mercantile Exchange. I have received and tabulated all discernible votes from a total of 1470 identified members or past members returning properly marked ballots. While the expressed opinion of each member has not been made public the total results of the tabulations are as follows:

1. 1,268 ballots from growers of at least five acres of potatoes evidenced the following opinions: (a) yes, 1,023; (b) no, 244; (c) undecided, 1.

2. 202 ballots from members or past members who do not grow at least five acres of potatoes evidenced the following opinions: (a) yes, 26; (b) no, 9; (c) no expressed opinion, 167.

3. In other words, of the growers of at least five acres of potatoes who voted 80.67% were in favor of the Maine Potato Council seeking elimination of the trading of Maine potatoes on the New York Mercantile Exchange.

DONALD E. QUIGLEY.

October 20, 1970.

STATE OF MAINE,
Aroostock, ss:

Personally appeared the above-named Donald E. Quigley and made oath that the foregoing Affidavit by him signed is true.

Before me,

LINDA D. FARRELL, Notary Public.

MAINE POTATO COUNCIL,
Presque Isle, Maine, October 1, 1970.

The envelope containing this ballot has been especially marked to call attention to the importance of the issue at hand. Of greater importance, however, is your immediate response to the question below. It's urgent that you mark your preference, sign in the space provided, and return it to the Presque Isle law firm of Stewart, Griffiths, and Quigley today in the envelope provided.

As your representatives, the Council must know your opinion concerning any effort that might be made to eliminate the trading of Maine potatoes on the New York Mercantile Exchange. If you are a commercial grower of 5 acres of

potatoes or more in 1970, your vote will be counted in determining our course of action.

If you are not now growing potatoes, please check below, sign and return the form without indicating any vote.

ERNEST C. CHASSE, *President.*

----- I am not growing potatoes.

Signed -----

Address -----

BALLOT

Must be returned by October 10.

Do you want the Maine Potato Council to use what resources it has to seek elimination of trading of Maine potatoes on the New York Mercantile Exchange? Yes ----- No -----

I certify that I am a commercial grower of five acres of potatoes or more in 1970.

Signed -----

Address -----

RESULT OF MERCANTILE POLL BY DISTRICT

[October 1970]

District	Area	Yes	No	Total	Eligible
District 1	Benedicta, Island Falls, Patten, etc.	49	4	53	7
District 2	Houlton, Linneus, Hodgdon	117	9	126	17 ⁵
District 3	Bridgewater, Littleton, Monticello	72	24	96	13 ⁴
District 4	Blaine, Mars Hill, Robinson, Westfield	66	30	96	127
District 5	Easton	50	11	61	81
District 6	Presque Isle, East Chapman	72	20	92	121
District 7	Mapleton, Castle Hill, West Chapman	31	6	37	45
District 8	Ashland, Garfield, Masardis, Oxbow, Portage	12	7	19	25
District 9	Fort Fairfield	98	24	122	154
District 10	Limestone, Caswell	61	9	70	89
District 11	Caribou, Connor	155	27	182	237
District 12	Crouseville, Perham, Wade, Washburn	40	10	50	61
District 13	New Sweden, Stockholm, Westmanland	42	8	50	63
District 14	Cyr, Hamlin, Van Buren, Keegan	19	11	30	58
District 15	Madawaska, Frenchville, St. Agatha, etc.	49	10	59	83
District 16	Fort Kent, St. Francis, Soldier Pond, etc.	49	16	65	86
District 17	Hancock, East Penobscot, Washington Counties	11	0	11	22
District 18	West Penobscot, Piscataquis, Somerset Counties	14	10	24	30
District 19	Balance of the State	16	8	24	39
Total		1,023	244	1,267	1,708

Mr. BULL. No member of the council or any of its officers have had access to the voted ballots and nobody except the attorneys know how any individual grower voted. At the official canvas of the ballots by members of the Council Committee on Elimination of Futures Trading and officers of the organization, representatives of the Maine Advisory Committee of the New York Mercantile Exchange Messrs. Merle S. Johnston of Fort Fairfield and Floyd Ledger of Presque Isle were present and offered no objections concerning the integrity of the ballots.

The results of the polls taken follow:

Date	Number polled	Ballots returned	Opposed	In favor
1957	4,000	2,039	1,860	179
1962	2,560	1,637	1,443	117
1964	2,292	1,263	1,108	129
1969	1,942	990	750	230
1970	1,708	1,268	1,023	1,244

11 undecided.

You will note that the findings of the subcommittee in 1956 referred to onions as well as potatoes. The two markets were quite similar, and the onion farmers moved at once and obtained legislation to throw off the burden of futures speculation. The Maine potato growers are still continuing to seek the same relief. We greatly appreciate the support which we have had in these efforts over the past 15 years from every large farmer organization in the nation. Congressman Hathaway has inserted in the record communications from farm associations, potato growers and individuals from all over the country advocating enactment of this bill. It is to say the least unusual to see such unanimity on a controversial subject affecting farmers and we are sure that the subcommittee will note that those who represent the actual producers of our principal agricultural product are with us in our efforts to avoid further speculative exploitation. As I have indicated at the outset, everything relevant to this subject of futures trading has been presented in previous hearings. The principal points offered by the proponents of H.R. 7287 may be briefly touched upon as follows:

1. The growers are unalterably opposed to futures trading.
2. The lack of any need for the potato futures market has been clearly substantiated by the fact that the 85 percent of the potato producing areas where there is no futures trading, fares better than the Maine growers. In the words of the USDA, "the function of crystallizing market information in these other areas is being performed satisfactorily between buyers and sellers."
3. In the words of a respected market official, "futures trading is a process by which forces of greed and avarice are harnessed for the benefit of the marketing system." Over a period of more than 18 years it has been proven impossible to harness the undesirable forces affecting potato futures so as to make the market acceptable to the producers.
4. Price movements are more erratic as futures activity increases.
5. Orderly marketing is discouraged by board influences toward pushing shipments later and later in the year.
6. Trading on the potato futures exchange is largely between, and influenced by, persons having no connection with, or between, and influenced by, persons having no connection with, or knowledge of the actual product or its true value.
7. The need for the market stability desirable to the farmer and the wide price gyrations on which the speculative futures market prospers make it hopeless to expect anything like peaceful co-existence. Either trading in potato futures will be stopped, or the producers in Maine, who stay in business at all, will continue to work under the handicap of repeated speculative abuses and futures trading operations causing unwarranted price gyrations. They will continue to resent it and may be expected to continue their attempts to have it abolished.

We have in our group, men who have been close to every aspect of the potato industry and who most certainly have the welfare of that business at heart. They make their living raising and selling potatoes. They do not have to theorize on the subject of what might be done by futures trading. They do know what it has done in Maine,

not just this year or last year, but what its general effect has been ever since about 1952, when it began to get a strangle hold on the industry.

I believe the committee will find the views of these men helpful in consideration of H.R. 7287.

At this point, I believe it appropriate to dwell upon the report to the Chairman of the House Agriculture Committee on September 24, 1971, of the U.S. Department of Agriculture concerning the legislation before you today. Once again the U.S. Department of Agriculture has demonstrated its lack of concern for the Maine potato farmer and another glaring inconsistency in policies that are vigorously touted as designed to preserve the family farm. On September 24, Assistant Agriculture Secretary Richard Lyng recommended to the Congress of the United States that the bills (H.R. 7287 and S. 1947) banning futures trading in potatoes, not be enacted. The Assistant Secretary's letter to the Senate and House Agriculture Committee chairmen, no doubt prepared by the Commodity Exchange Authority where the survival instinct is at least as strong as in other Government agencies, callously ignores the wishes, beliefs, and persistent protestations of potato farmers and, after consulting its commodity futures experts USDA pompously announces that prohibition of futures trading would not be expected to eliminate wide price movements which are inherent in the marketing of potatoes.

No one who knows anything about the potato industry has ever suggested that stopping futures trading will eliminate wide price movements in potatoes. There are some, however, including wirehouses, floor traders, and the active contingent of gamblers who desperately fear that elimination would put them out of business. Potato farmers, on the other hand, do expect at least partial relief. Of course farmers don't have access to all the computerized data available to the oracles in the ivory towers and swivel chairs in the U.S. Department of Agriculture. And, too, farmers (because of some of USDA's inconsistent and unrealistic policies) don't have the clout, either economically or politically, that is wielded by the more sophisticated and better-heeled "pit" bosses. Perhaps that's why the Department continues to ignore the real needs of farmers in favor of those who benefit most from a lack of effective farmer representation in Government.

For the USDA to report to Congress that "price fluctuations do not appear to be increased by futures trading" is completely amazing to the intelligence of any observer who looks at the data compiled by this same USDA which shows a direct relationship between the volume of futures gambling and wide price movements.

Mr. Parr's testimony, from the State of Idaho, this morning, I think, established that fact, using the same USDA statistics. The Assistant Secretary's letter completely ignores the fact that only a small percentage of the potatoes produced in this country are expected to bear the burden of futures trading and says nothing about how marketing is accomplished by other potato producing areas.

USDA's gymnastic record on the potato futures question begins in 1958 when then Agriculture Secretary Benson recommended that antifutures legislation then before the Congress "be not enacted"

while at the same time recognizing "that wide fluctuations in potato prices attract a type of speculation, the control of which presents problems beyond those found in the case of less perishable commodities."

Some of these same hard-to-control problems were most recently in evidence when the CEA took more than a year merely to announce that trading had indeed taken place on the New York Mercantile Exchange in violation of the rules back in May 1970. Secretary Benson equivocally stated "By focusing supply and demand factors at a central point, futures prices, in the absence of manipulation, are competitively determined." That's a big "in," as was shown in February of last year when a large Miami Beach trader was fined \$140,000 in a New York court for unlawful trading in Maine potato futures. In March of 1970, this same trader was also indicted by a Federal grand jury on charges of conspiring to engage in illegal gambling activities. Perhaps this is what Secretary Benson was referring to when he said: "Wide fluctuations in potato prices attract a type of speculation the control of which presents problems beyond those found in the case of less perishable commodities."

In August 1963, Secretary of Agriculture Freeman, softening, if not revising USDA's prior position, at least recognized one of the problems by pointing out in his letter to Congress that "many of those engaged in growing and handling Maine potatoes feel that the exchange disrupts orderly marketing by encouraging growers to hold potatoes until late in the season, thus abandoning early season markets to other producing areas."

In August of 1965, Secretary Freeman, while again not recommending for or against enactment, cautiously agreed with his predecessor's 1958 opinion that the "exchange appears to perform satisfactorily in crystallizing market information and disseminating futures price quotations," and that these quotations "furnish a basis for cash trading." Freeman, however, went one step further stating:

But it is also true that operation of spot potato markets in other producing areas, less affected by futures trading—and in markets for commodities where there is no futures trading, indicates that this function of crystallizing market information in these other areas is being performed satisfactorily between buyers and sellers.

Also in 1965, USDA admitted that prices established in the futures market are "distorted away from freely competitive values * * *" In 1971, however, the Department proclaims "* * * price fluctuations do not appear to be increased by futures trading."

In addition, this year, USDA identifies "overproduction, rising production costs, the need to improve merchandising methods to present an attractive product to the consumer, and the pressing competition among producing areas for markets" as grower problems while ostentatiously declaring "the banning of futures trading in potatoes will not solve the problems plaguing the potato grower." Of course not—but many believe it would certainly be one giant step in the right direction.

And so it is, then, that the battle lines are drawn again—the "David" of potato growers and the "Goliath" of a Government gambler alliance, as the USDA continues to illustrate the futility of

relying on Government to act on behalf of individuals. But in the words of Samuel Johnson, "If your determination is fixed, I do not counsel you to despair—great works are performed not by strength, but perseverance."

Even though we have been informed at the last minute that the opponents of this bill, namely the New York Mercantile Exchange, will not be presenting testimony until a later date, the story that they will have to tell must be the same as they have presented in previous years. We are certain that you will be told that futures trading in Maine potatoes is of great benefit to the growers. Economists will point out that without futures trading, Maine potato farmers would not long be able to continue growing potatoes. You will be told that, because of futures trading, Maine farmers have consistently received higher prices for their potatoes than growers in other parts of the country, and USDA statistics will be cited to prove that point. I submit the only people that are saying that are representatives of the New York Mercantile Exchange, because certainly the growers are not saying that they are receiving higher prices. They do not know it if they are.

In paid advertisements in a daily newspaper published in Aroostook County, Maine, the main information office of the New York Mercantile Exchange showed from USDA figures "Prices received by Maine potato farmers average higher than prices received by Red River Valley and southern Idaho farmers in 11 out of the last 15 years and for northern Idaho, the Maine potato farmer received better prices in 9 out of the last 13 years." What the Exchange's so-called information office neglected to say was that Idaho and Red River Valley prices don't reflect the cost of packing and that the prices received by the farmers in those areas are actually the amounts paid for naked potatoes and in the case of Idaho for naked potatoes into storage areas. The Maine prices are those paid to growers after growers have incurred the expense of storage, grading, shrink, packaging and loading into rail cars and into trucks for transportation. The University of Maine has developed information which indicates that the packing costs incurred by farmers in Maine were 72 cents per hundredweight in 1969, 70 cents per hundredweight in 1968, 68 cents per hundredweight in 1966. Subtract the cost of packing from the USDA average price received by farmers and the story changes.

In the same advertisement in the April 15 edition of the Bangor Daily News appeared this quotation "Idaho has futures trading on the Chicago Mercantile Exchange; they aren't trying to eliminate futures trading out there."

In view of Mr. Parr's testimony today representing the potato growers of Idaho, Inc., and the Idaho Potato Growers-Shippers Association, it is obvious that here is another case where the perpetrators of this propaganda, whether accidentally or by design, failed to do their homework and report information to Maine farmers accurately and completely. But this is nothing new. Maine farmers have unfortunately had to live with halftruths and deliberate misrepresentations ever since 1957 when on September 11 of that year, the New York Mercantile Exchange Business Manager, John Claggett, in a

news release pointed out "The recent vote of the Maine growers on the subject of futures trading shows that the exchange for all its efforts has failed to get across to growers the true value and function of futures trading in Maine potatoes." "I am fully convinced," Claggett said, "that if growers understood the value to them of the opportunity to hedge their crops, if they appreciated the true advantage of this chance to insure their investment in their crop, the vote would have been as heavily for the exchange as against it." That was in 1957, following the first poll of Maine growers which indicated overwhelming opposition to futures trading even then. Apparently, in the more than 15 years since 1957, the Maine grower still does not "appreciate the chance to insure his investment" by gambling in the futures market.

In view of all the previous hearings leading to the same conclusions—I was going to say we are trying to make brevity the keynote here, but it is pretty hard to do that when you are on page 15 of the statement. We are trying to. At the same time, we are dealing with a somewhat technical subject and will, of course, do our best to clear up any questions at any time.

Thank you very much.

Mr. FOLEY. Thank you very much, Mr. Bull. You have certainly given the committee a very forceful statement and we will look forward to having the opportunity to call you back to the witness table at the conclusion of the testimony of the other witnesses.

Mr. BULL. Yes, sir.

Mr. FOLEY. Thank you very much.

Now I would like to call to the witness table Mr. Headlee Wright of Monte Vista, Colo.

Mr. Wright, you testified previously before the subcommittee. We are glad to see you again.

STATEMENT OF HEADLEE WRIGHT, MONTE VISTA, COLO.

Mr. WRIGHT. Thank you, Mr. Chairman.

My name is Headlee Wright. I am a potato grower from the San Luis Valley in Colorado. I grow 350 acres of potatoes that are produced for the fresh market.

During the past 8 years I have had the good fortune to be closely associated with the potato industry throughout the United States. In 1964, with the hiring of a very good farm manager, I became manager of the San Luis Valley Potato Administrative Committee. This committee is the administrative arm of both Federal and State marketing orders in area 2 of Colorado. It was also the responsibility of this office to keep the local growers informed on happenings across the Nation that would affect supply, price, and general conditions.

The committee was one that wanted their manager informed and to be known in other potato areas so, a good share of my time was spent in traveling to other potato areas, especially those that shipped into the same marketing States as we do. In 1965 I was elected treasurer of the National Potato Council and served as an officer until being elected president in 1969.

During the year 1969, I had the good fortune of traveling to all the major potato producing areas and talking with growers all across this great Nation.

The one thing that has plagued the potato producer during this time is overproduction. I found that the problems in the potato business are interrelated. What one area does affects all other areas. If one area is too low on price, it has a direct effect on those areas in its immediate marketing area and an indirect effect on the rest of the Nation.

There seems to be no doubt about the ability of the potato producer to produce. Being in overproduction or near surplus most of the time, any tendency to withhold or not maintain a flow to market, will cause the problem to become greater.

As we from other areas watch Maine market its crops, we find that the bulk of it is marketed in the late spring, due to a hedge on the commodity exchange. Now this may be good or bad for the individual who has the hedge, but it plays havoc with the orderly marketing of a potato crop.

If, for any reason, a housewife passes up buying a potato for one meal this simply adds to the surplus. She will not double up on the next meal.

Mr. Chairman, I strongly urge you to support H.R. 7287, which would abolish futures trading on potatoes.

I would say one of the prime examples of how this can affect growers throughout the whole United States was the deliveries in Chicago last May and how the market was completely disrupted for more than 2 weeks and rumors have it that some of the negotiations used to help certain individuals were quite shocking.

The potato growers and their organizations all over the United States have opposed futures trading on potatoes. The National Potato Council, representing all potato producing States, has had a resolution to abolish futures trading on potatoes for several years. The potato industries in Colorado and other States are opposed to it. We find that the main ones in favor are the speculators or nonpotato growers who have no interest in the overall potato industry.

Mr. Chairman, we have been told by men of Congress many times to get our industry together and you would do something for us. We have gotten together in the past and I feel we are together again. The potato growers of the United States do not want this over their heads. Mr. Chairman, I strongly urge the passage of H.R. 7287.

I thank you for allowing me to appear.

Mr. FOLEY. Thank you very much, Mr. Wright. If you, too, can remain, we will call you back at the conclusion of the testimony.

The next witness is Mr. Gilman Albair of Caribou, Maine.

Mr. Albair?

STATEMENT OF GILMAN ALBAIR, VICE PRESIDENT, MAINE POTATO COUNCIL, CARIBOU, MAINE

Mr. ALBAIR. Mr. Chairman, members of the committee, my name is Gilman Albair and I live in Caribou, Maine in Aroostook County. My son and I plant 270 acres of potatoes and 80 acres of grain.

My homestead farms are in the fifth generation. I am now 1st vice president of the Maine Potato Council and chairman of the elimination committee, made up of 12 members for the elimination of future trading of Maine potatoes on the New York Mercantile Exchange.

I am also mayor of the City of Caribou, Maine.

Prior to 1966, I was in favor of futures trading in Maine. In 1966, I wrote a letter to the Maine Potato Council that I was very much opposed to future trading. At that time a few people called me a traitor, which I took with a grain of salt.

In 1962 Mr. Carl Smith, the former commissioner of agriculture, and vice president of the Bangor and Aroostock Railroad, visited me and explained to me how I could use futures trading to better our marketing of potatoes as far as hedging was concerned. Having a lot of respect for Mr. Smith, I said to myself that we are missing the boat somewhere along the line. He also asked me if I would go to Washington on behalf of the board and I told him I would think it over, which I did. He called me later and I said I would go to Washington to testify in favor of keeping futures trading. There was a large group that had flown down with their expenses paid by the New York Mercantile Board.

Now the point I want to make is that in our spare time, we were royally entertained by those in favor of keeping the board. At that time, I was drinking whisky sours. The more I heard of the horse trading that they were using to keep the board, the more sour the whisky sours became. I never realized that a tool could be used in that way.

When I got home all these things bothered me very much. One day I said to myself, I should go to New York and see for myself how this mercantile board really operates, which I did. The day I was there it was a really quiet day as far as trading is concerned. I asked a gentleman by the name of F. J. Reardon if this was a normal trading day and he said no. He then explained to me the mechanics of the board and how trading is conducted in the pit. I said what do you do for action and he left me and went and spoke to two or three other gentlemen. He then came back and said, "Gil, we will have a little action," which they did. It looked like a herd of cattle stampeding to the pit. Everyone's hand went up and the board then went up 7 cents. Inside of 5 minutes it was back to the same trading price.

This was just one small example of how the board is often manipulated by a small group of people while the people back in Maine are wondering what is happening. Here again I made up my mind, that if a man wades in the pool the fishing is damn poor.

Again I went home and I made up my mind that I could be all wrong and I tried hedging and it never worked out. I was always behind the 8-ball losing money.

I know for a fact that farmers who have never used the trading board are far better off than the small number of farmers who do use the board.

Since 1963, I have observed that the New York Mercantile Board has not regulated itself well at all.

I know for a fact that at times, there are certain people who can get in and out easier than others. I also know that deliveries are often mishandled, as are routings of board cars.

I have had two gentlemen tell me that have seats on the board that we will have them walking out with holes in their shoes.

I asked Mr. Reardon if he would be instrumental in keeping potato futures trading. He told me that he had a big investment in Aroostook County and that he would let the farmers take the course that they felt was in their best interest.

Futures trading creates an unreal market situation and demand. Contracts are often traded before the potatoes are even planted and harvested. All of this results in wide swings up and down of futures prices which often have nothing to do with actual market conditions.

On the last trading day for May futures contracts in 1970, certain individuals were allowed to trade out of order. Later Llwellyn Watts, chairman of the New York Mercantile Board, admitted that there had been trading violations.

On another occasion a Mr. Cohen from Florida was fined over \$125,000 for trading irregularities.

In closing, I would point out that the mercantile is manipulated by a few for their own profit while the farmers of Maine suffer losses.

Abe Lincoln once said that our Government is by the people, for the people, and of the people. I urge you eliminate the board because 82 percent of the farmers who are adversely affected by it want it ended.

Mr. FOLEY. Thank you very much, Mr. Albair. We are going, of course, to ask you to await the question period with the other witnesses and we would appreciate it if you could remain in the hearing room.

Mr. ALBAIR. Mr. Chairman, if it is in order, I have another statement here which will take just a few minutes and I will omit the names of the members of the Elimination Committee. I would like to read this here.

Mr. FOLEY. Would you identify on whose behalf the statement is being read?

Mr. ALBAIR. This is on behalf of myself and some few testimonies that were taken out of the past hearings. I have some figures here which—I could enter three of these pages here for a matter of record, and I would like to read the last—page that I have been concerning figures that I have taken out of the New York Mercantile Yearbook, 1968, and some figures from the Department of Agriculture Fruits and Vegetable Division Report No. 54.

Mr. FOLEY. We will be very happy to have the statement read if it is not too lengthy.

Mr. ALBAIR. Fine. The record of hearings on H.R. 904, 88th Congress, held April 8, 9, and 10, 1963, contains statements in support of abolition by some of the leading brokers, dealers and buyers of the Maine potato industry. Since the facts of this case are essentially the same now as they were in 1963, I would like, with your permission, to cite portions of the testimony presented at that time by these leading and most respected people of our industry.

Warman Warehouse Inc., Presque Isle, Maine, November 29, 1962.

Fred Warman (deceased) said some of the factors are most damaging to the potato industry of Maine. Several commodity exchange houses are putting out very bearish letters to stimulate "their own business." He also said the fact that potatoes are a perishable commodity means it does not lend itself to board futures trading.

Maine Farmers Exchange of Presque Isle, Maine, March 26, 1963. President Lawrence Thibodeau said, "It is my firm conviction that the overall potato industry in Maine cannot survive unless we develop an orderly marketing program whereby we market a steady flow of potatoes from September 1 to June 1."

He said, "I feel that this would be impossible as long as the mercantile is in operation and therefore, although it may be benefiting a few, for the interest of many and the overall industry, I feel that the futures trading of potatoes should be eliminated on the New York Mercantile Exchange. I feel that futures trading on commodity markets is not practical on perishable commodities."

Ken L. Ballard of Northern Farms Inc. of Presque Isle said on January 9, 1963, "We are sick and tired of being told by the New York board operators what to do, when to do it, and what is going to happen in the markets 8 or 10 months in the future."

Speaking on H.R. 10282 during hearings held on that bill in the spring of 1958, one of our most prominent potato growers said, "We, as growers, ask you to pass this bill and put the potato pricing mechanism back in the hands of those who actually grow and handle potatoes, and take it out of the hands of a few well-financed speculators who, I repeat again, are leeches on our industry." Mr. Chairman, these figures that I would like to make a matter of record are taken from the New York Mercantile Yearbook, 1968, and from the U.S. Department of Agriculture, Fruits and Vegetables Division, Report No. 54.

1966 mercantile trading (cars)	590, 330
1966 Maine potato futures contract settled by deliveries: (Cars)	
November	26
March	121
April	167
May	169
Total	483

*Less than $\frac{1}{10}$ of 1 percent of potatoes delivered on the futures board.

U.S. Department of Agriculture, Fruit and Vegetables Division, Report No. 54

	(Cars)
1966 total rail car shipments	18, 754
1966 total truck shipments	13, 786
Total	32, 540

A total of 32,540 that were shipped out of the State of Maine, rail cars and truck shipments. So the point that I would like to bring here, you can see that there is a vast difference between 590,330 cars traded on the mercantile in 1966 to what were shipped out of the State of Maine—483 cars.

Mr. Chairman, we have had an unfortunate thing that has happened to one of our committeemen here the first of the week. He was

supposed to be down here today to testify and Monday afternoon, he had a heart attack and died. This was Mr. Wilfrid Cyr from Grand Isle, Maine. They sent down his testimony to read and if you wish, I will insert it in the record or read it, whatever your wishes are.

Mr. FOLEY. Why not proceed and read it, Mr. Albair?

Mr. ALBAIR. Fine.

**STATEMENT OF J. WILFRID CYR (DECEASED), GRAND ISLE, MAINE;
AS READ BY GILMAN ALBAIR**

Mr. ALBAIR. "Gentlemen of the subcommittee, my name is J. Wilfrid Cyr, I live in Grand Isle, Aroostook County, Maine. I am now growing about 100 acres of potatoes.

"I appreciate this opportunity to appear before you in support of H.R. 7287. I am in accord with the great majority of Maine potato growers, who have repeatedly expressed themselves against the trading of their product on the NYME and emphatically plead for its elimination.

"I have been engaged in farming for over 25 years. I have hedged potatoes successfully on the exchange when the process was possible. That was at the very beginning, in 1952-53 and 1954. I have tried repeatedly since but to no avail.

"I will not burden you with boring statistics but instead, I shall attempt to give you the dirt farmer's point of view and his reasons why hedging on the exchange has become an impossibility. At the same time give you a closer look at the deplorable situation we are in today, due primarily to this evil known as futures trading.

"We are told repeatedly by the opponents that the farmers need to be educated on how to use the exchange. A few years past, Dr. Alvah Perry of the University of Maine was offering to meet with any 10 interested people to give a seminar on hedging on the exchange. I have submitted my name as an interested party on several occasions. Nothing ever materialized and to my knowledge no such seminar has ever been given anywhere in Aroostook County.

"In spite of my limited knowledge on how to use exchange, I try to keep abreast of it everyday to try to detect a trend, to anticipate a use. I am unhappy to have to report to you that in the last 15 years, the level of trading has been too low for a farmer to hedge and realizes his cost of production. The farmer doesn't need a professor to tell him that you cannot insure a risk by incurring a loss.

"The farmer, being by nature an innovator, was enthusiastic about the exchange at the beginning. He used it as it should be used to insure his risk. On a small scale to be sure; until he began to sense that the exchange maybe was controlled or perhaps even conducted. Those who have used it more extensively, are no longer with us today. Now, no professor could ever convince a farmer that the thing isn't manipulated."

Mr. FOLEY. Mr. Albair, if I may interrupt for just one moment, the Chair wanted an opportunity to introduce to the committee and to those present, before he leaves, a very distinguished visitor. Congressman Hathaway has pointed out that a former Governor of Maine, a very distinguished Maine citizen, is with us—former Gov-

ernor John H. Reed, who is now Chairman of the National Transportation Safety Board.

Governor Reed, it is a pleasure to see you and have you in the committee room.

Mr. REED. Thank you very much, Mr. Chairman. I would like very much to stay with you a little later, because it is a great pleasure to come up and see my fellow Maine potato farmers, but I must go back to work now.

I certainly wish them well. They know where I stand on this issue.

Mr. FOLEY. Thank you very much.

Proceed, Mr. Albair.

Mr. ALBAIR. "In the last few weeks, I have noted a slight upward trend in trading. It is not totally unexpected in view of the announcement of the hearing being held here today. I expect that the trend will continue upward for some time, again in view of the announcement of the postponement of the opponent's testimony. I would even venture to say that it is probably the main reason for requesting the postponement. Namely, to allow more time to conduct the level of trading into a more favorable position to support the arguments to be presented.

"This brings me to the next point which I want to bring out for your consideration. Allowing that the exchange is left to take a natural and normal course and that the level of trading rises to the level so as to make hedging possible again or even attractive. Until a farmer has recouped and accumulated some capital to be able to do it on his own, he is therefore compelled to borrow. Although the credit agencies, I am sure, are theoretically in agreement with the principles and process of hedging; they in turn will be inclined to do a little hedging on their own so as not to overextend themselves. Consequently, you have one form of hedging becoming a hedge to prevent or at least seriously limit a more desirable form of hedging.

"There is another way in which a farmer may possibly take advantage of hedging, again predicated upon a more favorable level of trading than has existed in the last 15 years. And that is to contract for his fertilizer and/or spray materials, and let the supplier do the hedging. Let him foot the deposit and margin. To avoid disappointment, the farmer should bear in mind that even though the possibility may be left in, the attractiveness will surely be taken out.

"There are those who contend that futures trading is not to blame for our present deplorable situation. They blame it instead on oversupply. I say it most certainly is. Futures trading has been the most significant contributor to overproduction. How long will it continue? Just as long as there are farmers. A farmer to farm, has to plant. To plant, you have to have fertilizer, spray material, machinery, etc., so you borrow. As long as you can borrow, you borrow. You even beg to borrow until you realize that you're borrowing to go begging when you quit.

"I said earlier that I have been engaged in farming for over 25 years. I am the fourth generation on the farm I now occupy. The day is fast approaching when I'll have to yield to the fifth generation. What will I have to yield? I guess I am still considered the legal owner of the farm I occupy. In reality, I am farming Government land. In

a manner of speaking you might even call it a reservation. So I live and work on a reservation. I live also with the uncertainty as to how long the Government will reserve for me the privilege of farming this land.

"One last observation about future trading. It is the contention of the opponents that the cash market always follows the futures market. I have no quarrel with that statement as long as we establish in which direction. If the future market goes down, the cash market is sure to follow—quickly and completely. If the futures market goes up, the cash market will respond much more slowly and cautiously, sometimes only to the point of remaining steady.

"No need to tell you that my forebears had their problems and faced many difficulties. I remember well the great depression of the thirties. My father had a hard go of it like everybody else. But never, never, for one instance, did he face the stark reality that I am facing today. But, again with God's help and your support by enacting this legislation. I still entertain the hope of once more enjoying the best part of wealth, namely independence."

That is all, Mr. Chairman.

Mr. FOLEY. Thank you very much, Mr. Albair. Of course, the committee is very, very sorry to hear of the death of the witness. His statement will be included in full as you read it in the record.

The next witness will be Mr. Vernon James of Elizabeth City, N.C.

Mr. James?

STATEMENT OF VERNON G. JAMES, PAST PRESIDENT, NORTH CAROLINA POTATO GROWERS & DEALERS ASSOCIATION, ELIZABETH CITY, N.C.

Mr. JAMES. Mr. Chairman, members of the committee, I will probably give you the shortest statement in history, as I have heard these hearings before and I want to avoid repetition. I would like to tell you who I am and who I represent and what stand I take.

My name is Vernon G. James, I live in Elizabeth City, R.D. 1, N.C. I am a past president of North Carolina Potato Growers and Dealers Association, past president of National Potato Council, past president of Weeksville Vegetables Growers Association, past member of North Carolina General Assembly, having served in the House for two terms. If you have ever seen a "has been," I am it.

Mr. FOLEY. You are a very distinguished one.

Mr. JAMES. I am presently president of James Brothers, Inc., growers and distributors of farm produce, potatoes included.

For the past 6 years the North Carolina Potato Growers and Dealers Association have voted their opposition to future trading in potatoes. On January 17, 1972, this past Monday, at a semiannual meeting, they reaffirmed their opposition to future trading.

I am here today in support of the Hathaway bill, H.R. 7287. This legislation is needed. Future trading in potatoes disrupts orderly marketing.

My chief complaint is: Trading ends in May each year. This is just prior to harvesting potatoes in North Carolina. Many people

speculate on potato futures and have no outlet for potatoes. These people are forced to take delivery and have no method of disposing other than open consigned market. This has a tendency and usually results in an overburden supply at the end of May.

The history of the potato industry will show a deteriorated market condition at this time of the year, June.

However, if potatoes are to be traded on the mercantile exchange, they should be traded from all areas all seasons. If users or producers want to use this type of marketing for the purpose of hedging, there would probably not be a sudden dumping of unusual burdensome supply at the end of the year.

I do not have to tell you that for the past 20 years, the price of potatoes has not changed significantly. The other economy of American is roughly 100 percent above what it was 20 years ago. Farm supplies today cost roughly 52 percent more than they did 20 years ago. If the economy of the farmer is any barometer of the economy of the nation, I think we are really headed for trouble and I think that anything that the U.S. Congress can do to help the economy of the farmer will certainly reflect in the rest of the country.

Thank you for your time.

MR. FOLEY. Thank you very much, Mr. James. I want to say that your full statement will be included in the record.

Off the record for a moment.

(Off-the-record discussion.)

MR. FOLEY. The next witness will be Arnold Roach of the State of Maine.

Mr. Roach?

STATEMENT OF ARNOLD ROACH, GROWER-MEMBER, MAINE POTATO COMMISSION, SMYRNA MILLS, MAINE

MR. ROACH. Gentlemen of the subcommittee, I am a potato grower from Smyrna Mills, Maine. My name is Arnold Roach and I grow about 150 acres of potatoes, which are designed for the fresh market. I have been farming all of my life. I own and operate, for the past 20 years, farms which date back to the days of my grandfather. I am also a grower-member of the Maine Potato Commission which, as a group, is opposed to the potato futures exchange.

I appreciate the opportunity of being able to testify before you here today. I think you realize it is not often that an old dirt farmer like myself from the State of Maine has the opportunity to present his views before such a distinguished panel as this.

Now, I am here in support of H.R. 7287. I am wholeheartedly in favor of eliminating the speculation of my livelihood by the New York Mercantile Exchange. I am bitterly resentful of the fact that futures speculation has such an adverse effect on my efforts to merchandise my product in an orderly fashion. The exchange is a parasite. It lives off me and hundreds more like me. It offers very little of value to the Maine potato industry and it disrupts orderly marketing.

Farming is an uncertain business at best. We fight the uncertainties of the weather, plant disease, farm labor shortages, chronic money shortages, acts of nature, supply and demand, and various other

hazards. There is very little we can do about the weather or other acts of nature, but, we can protest a manmade hazard; namely the New York Mercantile Exchange.

I don't contend that elimination of futures trading will solve all of the ills of our potato industry. It won't. But, by eliminating the futures trading of potatoes, we can go a long way towards restoring good merchandising practices in the potato industry. I am sure that you are aware that successful merchandising of any product is the goal of any industry. When this goal is disrupted by outside influences over which we have no control, and the exchange is just such an outside disruptive influence, then the industry is in deep trouble; trouble which is not of our own making.

I know that the USDA says that futures trading is good for us. On paper, that is a theory that reads well. In practice, futures trading does a great deal of damage, and their theory is utterly false. For example, they say that hedging of potatoes, a perishable commodity, is good business. In reality, hedging on the exchange comes back to haunt the entire industry in the merchandising of our crop.

A good example of the damage being done to our industry is that of some fertilizer and chemical companies and their hedging policies. These companies will advance fertilizer and chemicals to the grower for the planting of his crop. In return, the companies require the grower to hedge on the exchange enough carlots of potatoes to cover the cost of their fertilizers and chemicals. This hedging is normally required to be done by August 1. Since the summer months are usually the lower points of the exchange, this means that the carlots of potatoes are often hedged below the cost of production. These hedged potatoes are left on the exchange until the late winter months—the same months in which our heaviest shipments to market occur. At this time, these companies, in order to receive the money for their fertilizer and chemicals, call the farmer who made the hedges, and tell him when to load the hedged potatoes. These companies, many of which are also buyers and sellers of potatoes, then begin overloading the market and cutting prices. They saturate the market with cheap potatoes. Their main objective is to liquidate their potatoes. This objective is in direct conflict with the industry objective, which is responsible merchandising. A chaotic market results. The farmer's hedged potatoes have returned to haunt, and to hurt him.

So I say who benefits from hedging on the exchange? The major commodity dealers lose. Potatoes for which they may have paid a fair price are now worth less than when they bought them. The former is hurt financially. The Maine potato industry receives another black eye. We have lost our orderly market, and now must sell our product cheaply or else hold the remaining crop and pray for better times. The whole industry has lost.

Hedging, prior to the advent of the exchange, was a common practice, and worked well for the industry. In this type of hedging, a dealer bought potatoes during the spring and through the early winter months. The farmer delivered these potatoes at an agreed upon date and for an agreed upon price. In this way, the dealer had the same objective as the farmer; higher prices. The dealer wished better prices for the potatoes he had purchased, and the farmer wished better prices for his remaining crop.

I have found that many of the large commodity dealers from the major markets with whom I have spoken, are also in favor of eliminating Maine potatoes from the New York Mercantile Exchange. They have told me that the exchange has a detrimental effect on their merchandising of the Maine crop. Some dealers have said that they hesitate to handle Maine potatoes because of the erratic movements of the exchange, which makes the Maine product too hot an item to handle. They prefer to deal with other areas which do not have a potato exchange.

In conclusion, I would like to say that potatoes are a perishable commodity, and no perishable commodity should be traded on any exchange.

Thank you, gentlemen, for your time and courtesy.

Mr. FOLEY. Thank you very much. We appreciate your testimony, Mr. Roach, and we will call you back with the other witnesses in a short time.

Mr. ROACH. Yes, sir.

Mr. FOLEY. The next witness will be Mr. Danny Baldwin of Jackson, Mich. Mr. Baldwin.

STATEMENT OF DANNY BALDWIN, JACKSON, MICH.

Mr. BALDWIN. Mr. Chairman and members of the committee, my name is Danny Baldwin and I reside in Jackson, Mich. I am the president of the Michigan Onion Growers Association and also the vice president of the National Onion Association. My family is currently and has been involved in growing and marketing of onions for over 50 years.

As you know, years ago, the onion industry was united to rid themselves of futures trading. Thankfully, Congress responded favorably to this legislation. I wish to assure you, the onion people today are still and continue to be thankful to be rid of futures trading. Opposition to onion futures continues in our industry.

Since onion futures have been removed, our industry has not been problem-free. No one expected it to end our problems. We did return to normal supply and demand marketing methods.

We have not missed the suggested benefits of futures trading in a perishable product. In trade circles, onions and potatoes are considered similar perishable produce products. In many areas, the growers and shippers are involved with both products. City produce houses generally handle both products.

These potato growers here supporting this legislation are not suggesting it will end all their problems. These potato growers and shippers who have furnished the industry investment are the rightful representatives of the potato industry. Their only wish is to return to normal supply and demand free trade procedures. Their main message is a perishable product, like potatoes, does not lend itself to futures trading.

All pertinent agricultural organizations favor this legislation, with resolutions having been passed and submitted for the record. None of these agricultural organizations opposes this legislation. This is an amazing contrast: Several hundred thousand industry people

favor this legislation; a handful of brokers, speculators, or board-connected people oppose. There seems to be minimum opposition in numbers of people affected by this legislation.

There have been volumes of books written on the advantages of futures and apparent success in some stable items, and this is not being challenged. No question of services to some, but perishable produce is different. In practice, the book is thrown away and the speculator is busy writing his own book.

These economic expert people have not lived through a chaotic futures market in a perishable commodity which results in an impossible cash market affecting in many instances innocent people.

The practice of hedging by growers—I feel some clarification on this subject is necessary. Hedging is a detriment, not an advantage. Hedging, first of all, encourages acreage and acreage produces surpluses. Most of the time, the hedged price offered is 10 cents per bag below cost, or sometimes, if lucky, a break-even price. In addition, if hedged and if the unusual happens and a good market came along, you are deprived of the opportunity of profit on an advance cash market.

The speculators' role also needs clarification. He is the grower's worst enemy. He soon learns it is easier to depress markets than build them. So he plays the short side of the market. He went short before the grower got out of bed in the morning, therefore resulting in a lack of buying power.

In addition, in practice, chain stores and produce people in normal marketing channels buy produce direct from shipping point when they need it. No common use as a buying hedge, like in grain markets, again resulting in a lack of buying.

Ridiculous situations can develop, where producers buy on the board to protect their investment in the cash market. Imagine this: Board representatives state the advantages to the potato industry are grower hedging and pass their risks on to the speculator. I state this is not true with a perishable product. In actual practice, most of the time, the hedged price is below cost of production and the speculator is the grower's worst enemy because he is playing the short side of the market. He is very anxious to depress, pressure, and sometimes manipulate down both cash and futures markets. He then can buy his paper at much cheaper levels.

Growers and shippers are the proper spokesmen of this potato industry. They have furnished the industry investment and raised the crop. Since this industry belongs to them, then their testimony must come to the forefront. Exchange brokers, speculators, and university professors can't speak for this potato industry. The board spokesman's only interest is less brokerage fees and quick profits at the expense of the industry.

In conclusion, I wish to assure you again that the onion industry today continues to be thankful to Congress that they are rid of futures trading. I believe the potato industry would benefit by the passage of H.R. 7287, to prohibit potato futures trading.

Thank you very much for your time and attention.

Mr. FOLEY. Thank you very much, Mr. Baldwin. If you could remain, we will call you back at the conclusion of the witnesses.

Mr. BALDWIN. Yes, sir.

Mr. FOLEY. The next witness will be Mr. Ronald Barnes of Fort Fairfield, Maine.

Mr. Barnes.

STATEMENT OF RONALD BARNES, FORT FAIRFIELD, MAINE

Mr. BARNES. Mr. Chairman, members of the subcommittee, my name is Ronald Barnes and I am a potato farmer from Fort Fairfield, Maine. In a partnership with my son, we produce 250 acres of potatoes for the cash market.

I have been connected with the potato industry in Maine for 30 years. My livelihood is directly affected by its ups and downs. Regrettably, the downs have generally exceeded the ups.

I started to refer to "Maine's potato industry," but I have to face the fact that for 18 years or more it has not been Maine's industry but a mixed up sort of operation involving not just the production of actual potatoes but including speculation by thousands of people having nothing whatever to do with raising or selling potatoes. These gamblers, speculators, or outside investors, if you like, far outnumber the farmers and have a direct effect on what the farmers receive for their crop.

This has resulted in the existence of two sharply opposing groups between which there has been a running fight ever since trading in potato futures became of importance. This bill, H.R. 7287, is the current chapter of the several attempts by the farmers to eliminate the futures trading aspect of their industry. The fact that this question exists to any significant extent only in Maine potatoes, of course, makes the Maine farmers especially determined to rid themselves of what they consider a parasite from which 85 percent of the growers in the Nation do not suffer.

The opposition to futures comes from about 80 percent of those who produce the potatoes and has the endorsement and support of every major farm organization in the country. Those are the people urging passage of this legislation. Their views on the matter have been very constant during the years of controversy. Defense of potato futures trading comes from the mercantile exchange, the futures brokers and a minority group of producers, supported in varying respects by a number of professors and students of economics.

It is easy to understand the attack by the farmers and the defense by the brokers and the exchange.

The Maine farmers are against it because they are convinced that they would be better off without futures speculation, and the brokers are for it because they know it is the source of good commissions. Analyzing the reasons for the support by the professors is not as easy. Examination of the 75 or so statements the mercantile submitted from the professors shows that most of them set forth the uses of futures trading in general as found in textbooks developed since the practice was started over 100 years ago.

They dwell on such long-recognized principles as the basic illustration of a simple hedge in which a trader is long the actual and short the future. They emphasize that the markets provide places for the focusing of supply and demand forces.

Most of the academic views presented are subject to little argument, but they are directed to futures trading in general and not particularly to futures trading in the highly perishable products. They seem to recognize no material difference in contracts that much be terminated by May of each year as compared to contracts where the commodity in question can be stored and brought forward indefinitely.

The professors contend that the futures market provides an excellent means of price protection through hedging. A few potato growers testifying in previous hearings stated that they had good results through the use of the futures market. An interesting sidelight on that is that in 1963, on a similar bill, Mr. Fenlon from Fort Fairfield, Maine, introduced into testimony letters from 23 growers and shippers of Maine potatoes stating how hedging had helped them in their farm operation. It is interesting to note that of the 23, one of them, Mr. Gilman Albair, who testified here today, is here in support of this bill. Of the remaining 22, 11 of them are out of business. It seems strange to me that something that was so glowingly praised in 1963 seems to have been completely abandoned since that time.

Those members of the industry who say they have actually experienced good results include some who probably could show success at some time who since have admittedly been badly disillusioned.

The fact is that nearly all of the so-called hedging in potatoes is a combination of an attempt to relate futures trading with cash operations on a ratio determined by the judgment of the hedger. Many questions arise, such as what proportion of the actual commodity to hedge, when to put the hedge on, when to take it off, when to shift to more deferred futures contracts. Problems and questions arise that baffle highly experienced experts and which are completely beyond the time and capabilities of most farmers or other users of the market.

The professors make it sound very simple but in 18 years of effort, the farmers have found it difficult and often disastrous. We see members of the industry support it staunchly and vigorously after a period of success and then appear quite as vigorously seeking relief from its advantages.

Some of the statements question how the potato marketing system would get along if deprived of the futures markets. This seems to either overlook or ignore the fact that about 85 percent of the potatoes are produced and marketed free of futures trading.

The opposition will tell you that future contracts offer the only source of credit for some farmers. This is untrue. I'm privileged to be on the board of directors of a farm credit organization and also serve on an advisory group for a bank and I can tell you that there are plenty of funds available to finance potato crops. This is not to say that everyone can get all the credit he wants; however, any farmer of integrity who has proven his ability to grow a good crop and has a recent net worth statement will find funds available. There are some gaps, of course, especially for young men who are trying to get started and have a limited net worth; but here again the Farmers Home Administration has done a tremendous job in helping deserving young men get started in farming. Many of them here in

this room today were helped by FIHA. Of course, there have been some failures and disappointments, but the personnel of FHA need to remember that you don't get chips if you don't chop wood, so they should consider the many successes along with the failures.

But I'm not here to talk credit only to state that credit from futures contracts is great only for the fertilizer or supply companies who want to peddle their wares. They supply materials, sell the farmers potatoes on the board regardless of price to cover the cost. The results are that they get their's, but the gasoline dealer, machinery dealer, insurance man, and town tax collectors don't get paid which only exaggerates an already serious problem.

In any event, there are three main groups involved in this legislative controversy: (1) About 80 percent of the farmers are against futures because after 18 years experience and observation they are convinced—rightly or wrongly—that it is detrimental to their industry; (2) futures brokers and the futures exchange are heartily in favor of futures because it yields profitable commission. It has been estimated that futures commissions alone have averaged in excess—probably much in excess—of \$3 million per year. This isn't such an impressive figure by current standards, but in the eyes of the 1,850 farmers still trying to eke a livelihood from raising potatoes in Maine it looks pretty big; (3) a number of professors who express opinions generally favorable to the theory of futures trading. Looking back 18 years or more, it seems quite plain, that the divergent views will never be reconciled.

Some of the professors suggest that the growers need education so they will appreciate the futures market and use it properly. These men are expert in the field of education, yet it looks like after 18 years the farmers are still too ignorant to enjoy the blessings offered by futures. Apparently it is hopeless.

This is deadly serious to the Maine potato farmers. Their differences with the brokers and the exchanges cannot possibly be reconciled. It is strictly a question of whether they will be relieved of the speculative burden by H.R. 7287, or forced to work along under a handicap and continue their efforts for equality with the nonfutures area of the Nation.

I want to thank you gentlemen for the opportunity to be able to testify before you.

Mr. FOLEY. Thank you very much, Mr. Barnes.

We have five witnesses scheduled for the rest of the afternoon and the committee has been consulting as to whether to pick up the hearings again tomorrow morning at 10 o'clock. I do not want to inconvenience any of the witnesses that are yet to testify—Mr. McCaleb, Mr. Mooers, Mr. Tarburton, and Mr. Turner. Would any of you gentlemen find it difficult to be here tomorrow morning or would it inconvenience you in any way?

Mr. McCaleb. Mr. Chairman, it would be impossible for me to be here tomorrow morning. I am Mr. McCaleb. I will not take more than 5 minutes.

Mr. FOLEY. All right, Mr. McCaleb, we are glad to hear your testimony.

STATEMENT OF W. F. McCaleb, Jr., EXECUTIVE VICE PRESIDENT,
ASSOCIATION OF VIRGINIA POTATO & VEGETABLE GROWERS

Mr. McCaleb. I am W. F. McCaleb, Jr., executive vice president of the Association of Virginia Potato and Vegetable Growers. I am also the executive secretary of the State Seed Potato Commission of the Commonwealth of Virginia.

We are not directly affected, inasmuch as Virginia potatoes are not traded on the futures market, thank God. We are indirectly affected to a very great extent. To keep this short, I would like to have the privilege, sir, if I may simply file my statement, which you have, and elaborate on one or two of the provisions. I guarantee it will not take long.

The one thing that I want the committee to grasp is how, even though our potatoes are not traded on the futures market, futures trading adversely affects our crop and our growers. We inherit, since we start digging in the middle of June, this chaotic situation which you often have at the end of the futures contract in May on the trading of the Maine potatoes.

You have another situation. Many Maine growers like to hold their potatoes because they know the chaos that often results. They try to hold their potatoes out of their natural marketing period by the use of sprout inhibitors and all this sort of thing to keep the potatoes in condition that they can be sold in June and July. I do not blame them a bit. This is their economic salvation. But nevertheless, they compete directly with us and with North Carolina, for example, as has been already testified, whereas under a more natural marketing situation, this crop would already have been moved into the channels of trade.

From the standpoint of some people, a lot of people do not like to have to eat any more chemicals in their food than necessary. I do not blame the growers at all, because MH-30 is a safe chemical, but nevertheless, this is just one more thing.

I was frankly ashamed of our Department of Agriculture this morning, to see these men get up here and try to justify the shameless gambling that you have in a commodity, a crop that men spend their lives, their whole year's work can be just dissipated by the action of a few speculators.

I believe the figure in December of 1971 for the shipments, the carlot shipments from Maine, I believe was 1,935 cars. The actual contracts—in other words, the carlot contracts that were sold on the Mercantile Exchange in New York on Monday, this week, were 2,600 and some. In other words, they sold more contract in 1 day than Maine shipped potatoes in the whole month of December.

Now, if that doesn't show me, that it is gambling, and not legitimate hedging, then I do not have any common sense at all and I hope I still have a few remnants of that, even if I am closely connected with the potato business.

[Laughter.]

Mr. McCaleb. Gentlemen, from the standpoint of the USDA, their statement to me was most unconvincing. To me it was just another executive department whom, I am sure you gentlemen know, never

let go of anything. If the Congress of the United States once gives an executive department a hand on something such as they have on the potato industry through this thing, have you gentlemen ever seen them letting go unless the Congress violently removed the hand? They do not want to let this go. This means more power, more status, more jobs for an executive department. I really do not think that these gentlemen perhaps think this, they do not deliberately believe this, but they instinctively do it. It is the instinct of an executive department to grab hold of something and hang on regardless of the merits of it.

Gentlemen, please free us of this additional burden. Lord knows it is difficult enough to hack it in potatoes without it.

Thank you so much, Mr. Chairman.

(Prepared statement follows:)

STATEMENT OF W. F. McCaleb, Jr., ON BEHALF OF THE ASSOCIATION OF VIRGINIA
POTATO & VEGETABLE GROWERS

My name is W. F. McCaleb, Jr., and I am the Executive Vice-President of the Association of Virginia Potato and Vegetable Growers. I have been instructed by the members of our Association, by resolution at its annual meeting to urge the passage of HR7287, a bill to prohibit futures trading in Maine potatoes.

Our potato growers and dealers oppose trading in Maine potato futures, because we feel that it introduces into the normal marketing of Maine potatoes a vicious element of speculation. Speculators are able to operate on much lower margins in speculating in potato futures than the margin requirements for stocks. The extent of the speculators interest is demonstrated by the fact that whereas Maine normally will ship around 60 carlots of potatoes each day, the number of contracts traded on the Mercantile Exchange will often run in the neighborhood of 700 or 800 contracts or even more in a trading day. We think this gambling is at the expense of the potato grower and most directly those of the State of Maine. However, all growers are affected because an artificially depressed price for Maine potatoes hurts the early Summer market for Virginia potatoes.

At the end of the May trading period each year, a large number of cars of Maine potatoes can be dumped on the market with a result that other states, such as Virginia, which begins to ship during the middle of June, are heavily penalized.

We feel that trading in Maine potato futures delays the natural movement of the Maine crop to market. It is natural for a grower to try to hold Maine potatoes into June and July in order to sell them at a time when he hopes that the speculative element will have concluded its fling. This delay in normal movement to market hurts the late Spring and early Summer states.

We would like to point out that it is possible for a legitimate user of Maine potatoes to protect his future needs by contracting directly with Maine growers. This bill would not prohibit a processor from entering into an agreement with a grower for the future sale of all or part of his crop. It would prevent the speculative trading of that contract.

We do not feel that futures trading should be permitted in the case of perishable crops such as potatoes and onions. The Congress wisely, a few years ago, prohibited trading in onions futures to the great benefit of the onion producer. We respectfully ask your Committee to report HR 7287 favorably.

Mr. FOLEY. Thank you, Mr. McCaleb. I am going to ask you if you would for just a moment remain seated because you have to leave and it would not be possible for you to come back tomorrow.

If there are any questions of any members of the subcommittee of Mr. McCaleb, he will take them at this time.

Mr. Matsunaga?

Mr. MATSUNAGA. Mr. Chairman, I am late for an appointment now, but prior to leaving, I might make this statement, that when I was chairman of this subcommittee at one time, this matter was taken up and heard at length. I supported the measure then. I wish to reiterate my support so that those who are here testifying for the bill may have a better night's sleep tonight.

With that I leave.

I might say also that we have observed here today that the Congress, if not committee, especially, can do and does perform miracles. We heard not only from a has been, but we also heard from the dead.

Mr. FOLEY. I might just explain to those in the hearing room how it happens that as a junior member, I have taken over the chairmanship of this subcommittee from a very senior member, Mr. Matsunaga. He was elevated a few years ago to a position of great dignity in the Congress. He became a member of the Rules Committee and by a rather rare exception of our practice in the Congress, he came back to the Agriculture Committee. Usually when you are on Rules, that is all you are permitted to be on because it is so powerful a committee. So he came back to the Agriculture Committee. He did not come back in his former status as a subcommittee chairman, but he has a great deal of weight in the Congress broadly speaking, because whenever a bill, particularly our agriculture bills, go to Rules, we always know we have a friend on the Rules Committee in Mr. Matsunaga. He wears two hats and we are always glad to see him when we have to bring a bill before that prestigious committee.

Thank you very much.

Mr. MATSUNAGA. Thank you, Mr. Chairman, for your most generous remarks.

Mr. FOLEY. At this juncture, if there is no problem with Mr. Mooers and Mr. Tarburton and Mr. Turner returning tomorrow—

Mr. TARBURTON. I have about a 60-second statement.

Mr. FOLEY. All right, we will be glad to hear you.

Thank you very much, Mr. McCaleb. We appreciate your testimony.

STATEMENT OF JACK TARBURTON, DOVER, DEL.

Mr. TARBURTON. My name is John H. Tarburton. My address is R.D. 3, Box 341, Dover, Del. I grow 170 acres of potatoes. I am presently president of the Delaware Potato Growers Association.

At a regular meeting of the Delaware Potato Growers Association on January 12, we again voted to support and ask your support of House bill 7287, an attempt to have potatoes removed from the commodity exchange.

I thank you, Mr. Chairman.

Mr. FOLEY. Thank you very much, Mr. Tarburton. That leaves only two witnesses to conclude the witness list. But because some of the committee members will not be able to remain much longer and I have been advised by Mr. Hathaway that particularly the Maine group will not be returning until 1 o'clock tomorrow afternoon, our schedule for tomorrow morning would give the subcommittee a greater opportunity to question the witnesses who have testified.

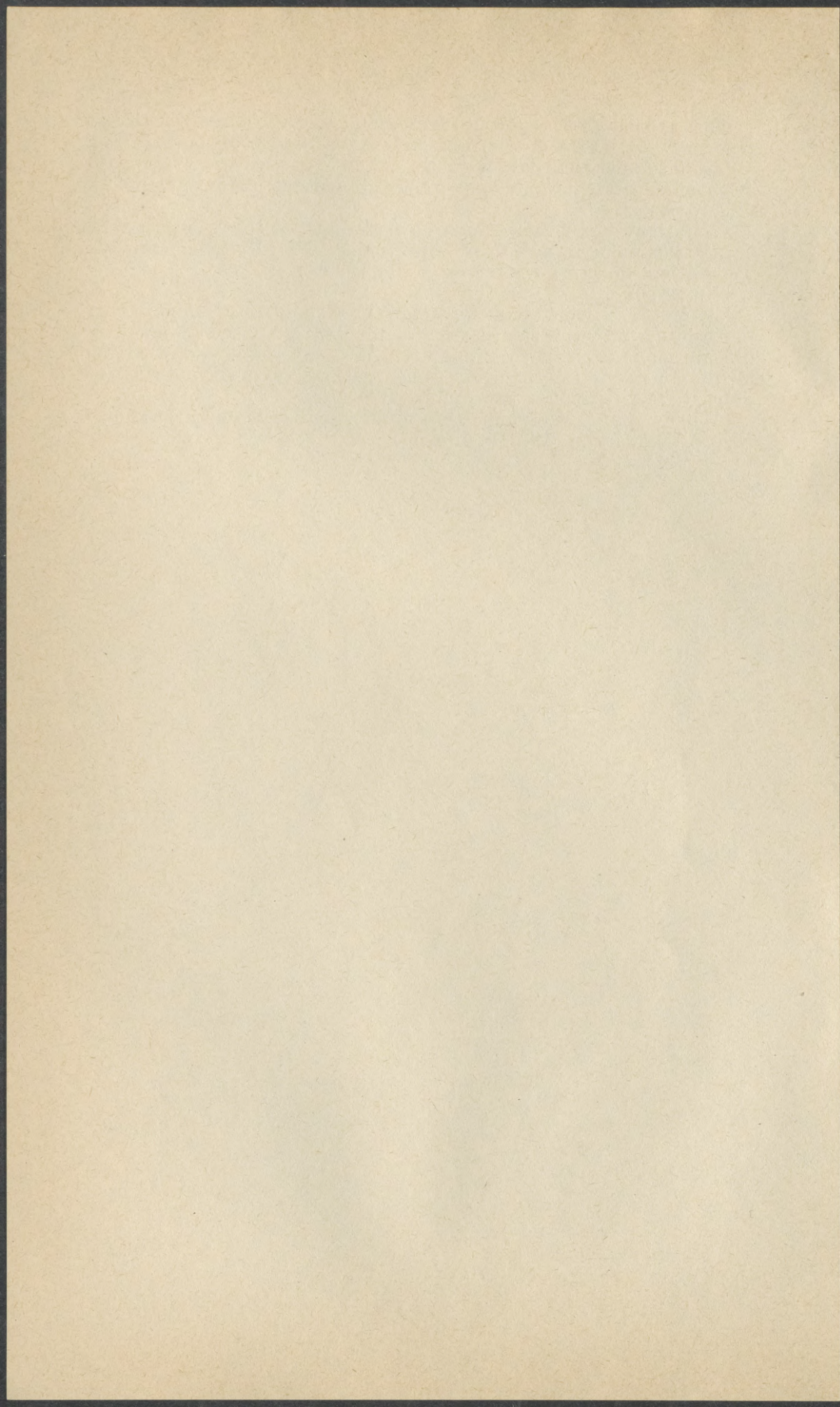
Now, at that time, we would anticipate calling back any witnesses who have testified and who find it possible to come tomorrow. But we would understand if any of the witnesses, either from Maine or from other States, would have other obligations and would not be able to come.

Would any of the witnesses who have testified today find it difficult, other than those already mentioned—Mr. McCaleb and Mr. Tarburton—to return tomorrow at 10 o'clock?

[No response.]

Mr. FOLEY. I think it would offer the committee an opportunity to explore a little more fully what is admittedly a very complex and difficult subject. So at this juncture, the Chair would like to thank all those who are in attendance today and the subcommittee will adjourn, to meet tomorrow morning at 10 o'clock.

(Whereupon, at 4:05 p.m., the subcommittee was adjourned until Friday, January 21, 1972, at 10 a.m.)



PROHIBIT TRADING IN IRISH POTATO FUTURES

FRIDAY, JANUARY 21, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING AND
CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 1301, Longworth House Office Building, Hon. Thomas S. Foley (chairman of the subcommittee) presiding.

Present: Representatives Foley, Denholm, Link, Goodling, and Zwach.

Also present: Representative Hathaway, Christine S. Gallagher, chief clerk; and Lacey C. Sharp, general counsel.

Mr. FOLEY. The Subcommittee on Domestic Marketing and Consumer Relations will come to order.

The subcommittee meets again today in consideration of H.R. 7287, by Mr. Hathaway, and Mr. Kyros of Maine, to prohibit trading in Irish potato futures on commodity exchanges.

The next witness will be John Mooers of Houlton, Maine.

Mr. Mooers?

STATEMENT OF JOHN MOOERS, HOULTON, MAINE

Mr. MOOERS. Mr. Chairman, members of the committee, my name is John Mooers. I reside in Houlton, Maine; have been a potato grower and shipper for 24 years. Twelve of these years, I was director of the Main Potato Council, 2 years of which I served as its president. I will attempt to give you a straightforward account of why I know at least 80 percent of the growers in my State wish to abolish futures trading of Maine potatoes on the New York Mercantile Exchange.

For 15 years, the proponents of the exchange have been trying to educate the Maine potato growers to the virtues of hedging a portion of their crop on the exchange. They contend that it is an economic tool that can be used to guarantee a profit or to insure against possible losses, that it represents a ready market at guaranteed prices any time that the growers feel it is to their advantage to move.

Why, then, after so long a time, have growers failed to take advantage of this exchange vehicle? There are many reasons. I will list a few of them.

First off, the potato grower is basically by nature a perennial long. He is a bull. This is part of his survival kit and the consumer should

thank God that he is so constituted. He instinctively views a short seller as his natural enemy. The grower knows that this fellow, spurred on by wire houses, will raid him at the first signs of vulnerability, thus interfering and undermining any attempt he may be making to support and maintain a constructive market.

Two. He feels that at times, the exchange has contributed to overproduction, thus forcing him under pressure of expediency to use the very vehicle that brought it on in the first place. This is the cancerous aspect of the exchange—the exchange has a tendency to feed on itself.

Three. The grower has been told that the exchange simply reflects the cash market. With potatoes, this is a dubious fact. In Maine, nothing is bought or sold without at least a sideways glance at the board.

Four. At best, hedges are usually cost of production or less and most of the time, the better hedges come late in the shipping season. Credit agencies have become leary of financing the May contracts because it is just too much of a risk.

Five. Banks and other credit agencies who finance hedging operations demand that when the grower liquidates his position on the board, he sell his actuals simultaneously on the cash market. This is not always easy to accomplish and it puts the grower in no position to bargain. He is a temporary captive and his actions tend to undermine or soften cash market prices. It means an increase in offerings regardless of market conditions. It also represents a threat of outright deliveries.

All this tends to make a nervous market. Occasionally, the grower gets caught up between the powerful opposing forces of longs and shorts. This makes for a real circus. I have seen times that if it had not been for the stable, steady, buying practices of the large chain for consumer packages, complete and utter chaos would have taken place. The grower does not like the feeling that he is only a pawn in a bigger game.

Banks and fertilizer companies are pro-mercantile because they are a first in type of people. They are going to get theirs. The growers are the ones who are coming out of this on the short end. Then you have the odd grower who has no compulsion to dumping his crop on the market, thus undermining his neighbor and possibly the value of his own potatoes that are still in storage that he has not sold. The potato grower in Maine knows that they will never build a constructive cash market if it is based on thousands of individualistic expediences. That day is past.

I have no quarrel with exchanges in general. I have no doubt that they serve a useful purpose for some commodities, but I think potatoes, because of their perishable nature and the fact that they are not totally processed, plus the short shipping season, do not lend themselves to exchange trading. I fear that when it comes to the futures trading of potatoes, the notion is one that sounds good in theory but falls short in practice.

I know that there are two sides to any argument and even if the pros and cons were equal, in this country, the attitude of the grower should tip the scales. He is a prime factor and his efforts are essential to our society. He is not a parasite.

I urge you gentlemen to respond favorably to our request to rid our industry of futures trading of potatoes on the New York Mercantile Exchange.

Thank you.

Mr. FOLEY. Thank you, Mr. Mooers. Following the testimony of Mr. Turner, we are going to call all the witnesses back.

We will call now Mr. Dan Turner, Jr., of Fort Fairfield, Maine, president of the Potato Council.

**STATEMENT OF DAN TURNER, JR., FORT FAIRFIELD, MAINE,
PRESIDENT, MAINE POTATO COUNCIL**

Mr. TURNER. Thank you, Mr. Chairman. I might say that one of the privileges of being president of an organization is that you maybe have a little bit to say about the decisions that are made, and being last at this hearing, a good many of the points have been covered and it may make my job a little bit easier here this morning.

Mr. Chairman and members of this committee, my name is Dan Turner, Jr., and I am a potato farmer farming in a small town called Easton, situated in the central part of Aroostock County, the largest and northernmost county within the great State of Maine. I appreciate this opportunity to appear here before you today in support of H.R. 7287 as president of the Maine Potato Council and as a potato producer deeply concerned for the future of the Maine potato industry.

After all of the discussion of potato futures trading that we have listened to and read over a period of about 18 years or more, the contentions and opinions of the people involved have not changed much, if at all. About 80 percent of the Maine potato farmers still do not like futures trading in their product and emphatically plead for its elimination.

In the January 17 edition of the Bangor Daily News, an employee of the New York Mercantile Exchange is reported to have described the Maine Potato Council's chartering of a Northeast Airlines airplane to transport these approximately 85 Maine growers to this hearing as a flagrant misuse of tax money. He was speaking about the fact that this association paid \$6,876.45 to underwrite the cost of roundtrip air transportation to Washington. This amounts to about 50 percent of the total cost.

You heard Mr. Bull say earlier that the financial support of the Maine Potato Council is derived from a 1.2 cent per hundredweight on all potatoes sold assessment paid to the Maine Potato Commission. The council then presents its annual budget request for funds to the commission, which in turn allocates a sum from its receipts to finance the council's activities. On October 29, 1970, the Maine Potato Commission allocated the sum of \$20,000 to the council to underwrite the cost, whatever they may be for, in an effort to eliminate futures trading on the New York Mercantile Exchange.

In addition, in a ballot by Maine growers in October of 1970, 81 percent voting said yes to the question, do you want the Maine Potato Council to use what resources it has to seek elimination of trading on Maine potatoes on the New York Mercantile Exchange. If spend-

ing taxpayers' money carrying out a project which 81 percent of the taxpayers have approved by written ballot is a flagrant misuse of tax money, then I submit that we should have more of it.

Mr. Chairman, I have a list of the growers in attendance here today from Maine in support of H.R. 7287 which, with your permission, I would like to submit for the record at this time.

Mr. FOLEY. Without objection, this list of 75 names will be placed in the files of the committee.

Mr. TURNER. On the other side of the discussion, the exchange and the futures brokers, supported by a number of professors and students of economics, assert that the potato futures market could be a valuable tool in the marketing process and can be used by farmers, to their great benefit. Those favoring futures trading also present testimony from some growers who state they have used futures advantageously. The list of these pro-futures growers varies from time to time. It appears that some have had what looked like good results with certain ventures, but on future use of the market, did not do so well.

Mr. Alex Caldwell, in his testimony yesterday, on pages 6 and 7, states:

In Maine almost half of the crop for food, or about one-third of the total production, is now being processed. Processors are contracting forward with growers early in the marketing season, and some are using the futures market for hedging their price risks. What ultimate impact the increased processing of potatoes will have on the market structure and pricing system can't be foreseen. The competition between processors and shippers of tablestock potatoes will continue. The prices paid producers by processors are generally lower than the prices producers receive for table stock potatoes. However, the presence of a November contract on the Exchange tends to put a floor under the price offered growers for processing stock.

Gentlemen, I would like to maintain that, based on past experience and bargaining efforts in the State of Maine with processors for better prices on pre-season contracts, this is not so. We maintain that the November contract on the mercantile exchange sets a ceiling. Processor contracts are signed with processors usually in the months of March and April, long before potatoes are planted, and the buyers of a product are already looking at a price usually far below the cost of production. It seems to me that what this committee has before it is the basic question of who should decide how the Maine potato crop will be marketed. Will the marketing and, to some extent, the production of the 15 percent of our crop which is produced in Maine continue to be influenced by speculative activity in futures or will the Maine potato industry be permitted to operate as do most other potato areas of the country where futures have not become a dominating factor? I do not believe that anyone can seriously contend that a big majority of the Maine potato farmers do not favor the stopping of futures trading and have consistently opposed this trading for the 18 years or so since it reached significant proportions.

Despite attempts to discredit the five polls, they have shown time after time how most potato farmers feel. The exchange and futures brokers do not have to worry much about being liked or disliked by the farmers. As of October 29, 1965, the USDA sold 6,371 accounts with open contracts in the potato futures market. Of these, 369 were

accounts classified as potato growers. So it is the doctors, the lawyers, the teachers, housewives, retired persons, and the like making up for the remaining 90 percent of the total who continue to speculate. The futures business will continue to prosper even if all the farmers fall by the wayside.

Of course, we are asking that you accept the findings made by the subcommittee back in 1956, and give the Maine farmers the opportunity to control their own marketing process, as do most other potato farmers. This thing is deadly serious in Maine, where we feel that relief is long past due.

Having come within a hair's breadth of reaching their goal on H.R. 904 and no longer being faced with certain roadblocks that existed at that time, we have very high hopes. The feeling has been and still is that the struggle must continue until the potato farmers of Maine are permitted to use marketing methods not constantly subject to speculative influences. We most earnestly hope that H.R. 7287 will be the last chapter in the history of this fight. Thank you.

Mr. FOLEY. Thank you, Mr. Turner.

At this time, I am going to ask all witnesses present in the room who were not questioned yesterday—I think that is Mr. Parr, Mr. Anderson, Mr. Collins, Mr. Bushman, Mr. Bull, Mr. Wright, Mr. Albair, Mr. James, Mr. Roach, Mr. Baldwin, Mr. Barnes, Mr. Mooers, Mr. Tarburton—I believe some of them are not here, but those who are here—to join Mr. Turner either at the counsel table or in the front row. If there are not sufficient seats in the front row, perhaps those who are in the front row will make room for them.

Mr. BULL. Mr. Chairman, my name is Bull. I would point out to you that Mr. Albair, Mr. Roach, Mr. Turner and Mr. Baldwin are at the witness table. The others are sitting behind them.

Mr. FOLEY. Thank you very much. At this time, the Chair will recognize members who have any questions.

Mr. ZWACH. Mr. Chairman, first of all, I think that I should commend a group of honest to God producers for coming down here and presenting their case. I have been on this committee 5 years, beginning the sixth, and I have not seen another instance where, in this committee room on Agriculture producers have so well presented a case.

I think I might say also that generally, common sense, good judgment, and wisdom comes from the grassroots up. It does not come so much from the top down. And this committee needs to drink up a little of that good common sense and wisdom that comes from being beat by the rain and blown by the wind and hit by low prices. So we need that here. Too long all around this Department and committee, there has been parity of income, and the people who have testified yesterday for the Department have had parity of income for a long time. And they had a 5.5 percent increase on January 1. They sometimes too easily forget that. So it takes your kind of input to remind Washington of the real situation out in producer America.

Now, I have several questions. How many producers are there of your Maine potatoes? Anyone have that figure?

Mr. TURNER. Yes, sir. The figure is—

Mr. FOLEY. May I interrupt a moment, Mr. Turner? When questions are asked by a member to anyone in the panel, if the person who answers would first state his name, the reporter will be able to identify him.

Mr. TURNER. My name is Dan Turner. We have approximately 1,400 potato farmers within the State of Maine presently.

Mr. ZWACH. Do you have an organization that they all belong to?

Mr. TURNER. Yes, sir, the Maine Potato Council does represent each and every grower within the State.

Mr. ZWACH. Did the Department, before they issued that statement they read yesterday, did they confer with the representatives of your group regarding your position on this legislation? Did they confer with your producer group?

Mr. BULL. Mr. Chairman, my name is Chip Bull and I am executive vice president of the Maine Potato Council. The answer is no, they did not, to my knowledge, confer with any growers, grower groups, or the Maine Potato Council prior to issuing that report.

Mr. ZWACH. Generally speaking, do you have a fairly close relationship with the Department of Agriculture? Do they come out and see you or when you come in to visit, do you get hearings? What is your feeling toward this division of the Department of Agriculture?

Mr. TURNER. Mr. Chairman, Dan Turner.

I think the Department does listen when we have something to present to them. I think, however, that quite often, they are not coming out to us, they are not getting down to our level. I think this is an area that needs to be improved upon, to get back to the growers, to get out and observe their problems rather than wait for the growers who have to suffer many hardships before the problem is brought to light.

Mr. ZWACH. How do you think your situation will be improved by the passage of this bill? More orderly marketing? I would be very interested in further development of that. I understand that you are a little like us in corn, you always are producing abundantly, so you take very little of the whole crop, because you produce an extra bushel. Now, how are you going to improve your situation by the passage of this bill?

Mr. BULL. Mr. Chairman, my name is Chip Bull.

If this bill passes, which we hope it does, the Maine Potato Council certainly will encourage, and I am certain that the growers in Maine will respond to orderly marketing of its crop—that is, to begin marketing the crop soon after it is harvested, while it is at its peak of excellence, and continue marketing throughout the entire season to insure a steady movement to market, a consistent movement, and therefore to permit the consumer the opportunity to have good Maine potatoes on their tables at all times rather than just spasmodically at the whims of a few speculators and gamblers.

Mr. ZWACH. Do you, through your organization, have any selling strength? Do you deal for your whole group on prices, or is the dealing with each individual where there is contracting?

Mr. TURNER. At the present time, marketing on the fresh market, no. The Maine Potato Council was instrumental a year ago—2 years ago, excuse me—in getting formed a bargaining organization to bar-

gain on behalf of all farm commodities on behalf of producers. We are going through some growing pains. We feel that we have gotten over the hurdle.

However, I would like to go back to the statement I made earlier. Bargaining would be real hard in Maine with a futures market. Primarily, with processors, because the months for contracting are generally the months of March and April and prices have already been reached. In the area of sales to fresh markets, we are taking a deep look at this. In the future, we may be getting into this also.

Mr. ZWACH. You do not operate under a marketing order?

Mr. TURNER. At present; no.

Mr. ZWACH. Do you have one that is inactive—

Mr. TURNER. Yes, sir.

Mr. ZWACH. Or have you ever had one? Have you ever tried to use that facility?

Mr. TURNER. Yes, sir; we have operated before under a marketing order, Federal marketing order. I am sure there are gentlemen here who can give you the dates. It presently is on the shelf, inoperative within the State.

Mr. ZWACH. That is all, Mr. Chairman.

Mr. FOLEY. Any questions, Mr. Denholm?

Mr. DENHOLM. Yes. Are all of you producers at the present time?

Mr. BULL. Mr. Chairman, all of the people here are producers except myself and I am the executive vice president of the association.

Mr. DENHOLM. Do you know what the history of the trading in potato futures is and how it came about and why?

Mr. BULL. I do not because I have only been here a couple of years, but perhaps Gilman Albair can tell you.

Mr. ALBAIR. I am Gil Albair from Caribou, Maine.

I believe that the potato futures were initiated in 1941. Why I say this, a neighbor of my father initiated this thing here in Caribou. His name was Gordon Robinson.

One night I was mowing the lawn and he came over. He said, Gil, he said, we are going to start a new deal up here in Maine.

I said, what is that going to be, Gordon?

He said, it is going to be the New York Mercantile. So I was quite interested, I was quite young at that time.

I said, what is it all about?

He said, it is futures trading. He said, I am going to pick up the pieces in the gutter and I am going to make a million dollars.

I think probably he did.

So anyway, this went on and you came into the war years, the support prices, and the mercantile more or less died. In 1946, this mercantile picked up steam again and it has picked up steam ever since.

You have a lot of dealers in Maine, which we call brokers, which have these particular tapes in their offices. They have handled a lot of potatoes. Some of these brokers have handled up to 3,000 cars a year, and they are using this tool to hedge potatoes on the board, and in the same basis, buying fresh products on the board—I mean to sell on the fresh market—and from say November, or the hectic months, March, April, and May, they can pretty near make them-

selves right, either for the position that they are holding, either they are going to make deliveries or not make deliveries, or either setting up a structure that is breaking your orderly markets.

I would like to go back into November. Probably I am getting off the subject, Mr. Chairman, but if I am, you cut me off. I would like to get back to November, that these contracts initiated—

Mr. DENHOLM. What year are your referring to when you mention the month of November?

Mr. ALBAIR. Well, it would be 1971, 1972. I am talking specifically as a whole, I mean from the time that they started the board in 1941. So we can pick 1972, which is probably easier for me to explain.

You have got the November contract that opened here in November of 1971. You have got a crop of potatoes, you have got a crop of potatoes here to merchandise. You have got the crop of potatoes and it is going to be about 10 months before you ever put a crop in, in which that November option is open. It is mostly under cost of production. Like Mr. Turner mentioned here a few minutes ago, it sets a ceiling on your contracts as far as a processor.

These people that are hedging potatoes, say like in the month of November, and it comes in in the month of May 1972, and I need fertilizer and you have got a price structure that is under cost of production, you have a fertilizer company that I go to and say, well, I have got to have x number of dollars of fertilizer or x number of tons of fertilizer. So immediately, they perform a contract and you deliver x number of cars.

Well, this x number tons of fertilizer costs x number of dollars. So the dealer gets x number of cars to cover the x number of dollars of the fertilizer contract. But by the same token, the farmer is losing money on the x number of cars that he is delivering, because he is selling under the cost of production most of the time.

So the mercantile exchange boys, or I call them the roulette wheels in New York, say, well, this is not true; you have months that you can hedge and make a profit. Well, I won't dispute their word at all, that you have 1 month normally that you can make a profit on an average—I am talking about 1941 to 1972 or 1971. That is the May contract—that you can make a profit on the May contract.

So any one of these growers, I would say on the average—the average acres is about 85 or 87 acres here in the State of Maine per grower. I grow 270 acres of potatoes. So taking my case, and say here in November, when the May option opens and I harvest my crop and I get x number of—we figure in barrels in the State of Maine. We are a little behind, we should be figuring in hundred-weight. But we are coming to that. I can sell my whole crop in the month of May. But I can start delivering this crop here May 10 and the deadline is May 31. So I do not think anybody—and I think anybody will agree with me in this room—I do not think you could ship over 10 percent of your yield into the May board.

And you have a lot of things to take into consideration. You have stored potatoes from September to the month of May, and this is a perishable product. I can show you an experience that we had here last year. If we had hedged on the board and we had approximately, I would say approximately, \$15,000 worth of potatoes when we went

to planting this crop and the potatoes were coming up beautiful, and in 13 days time, when we got the crop in and came back to ship these potatoes, these potatoes just broke down. Like the old saying, there is no 2 years the same. That is what happened last year.

So my contention is that there is nobody who can put 100 percent of their crop on the May board. This is the argument that the Mercantile is giving us or the New York people are giving us, or some of the people in Maine—very few people in Maine—are giving us the argument that you always can sell potatoes at a profit.

Mr. DENHOLM. Do I understand you correctly that your option in the potato trading is only available to the producer in the month of May?

Mr. ALBAIR. No.

Mr. DENHOLM. Why do you not sell your options in January?

Mr. ALBAIR. You mean sell them now?

Mr. DENHOLM. Yes. Can you exercise a futures option any time, even though you do not make a delivery?

Mr. ALBAIR. If I exercise an option, I have an obligation—you are talking about as a hedger?

Mr. DENHOLM. Yes.

Mr. ALBAIR. I have an obligation to deliver these potatoes or pick them off the board on May 10 when the board closes, to put them out on cash.

Mr. DENHOLM. What's the problem about May?

Mr. ALBAIR. That is the last month. That is the big swing.

Mr. DENHOLM. It is open to you at all times?

Mr. ALBAIR. It is open November, March, April, and May. You have not got December, January, and February.

Mr. DENHOLM. Why?

Mr. ALBAIR. So it says to me that you have 3 months that you should not be shipping potatoes. And regardless of whether they have to be the December, January, or February option, I do not think it would be any use, because you would not get orderly marketing anyway.

Mr. DENHOLM. I want to know what your opinion is and how producers would be affected if there were no futures to hedge against. How would that situation relate to producers?

Mr. ALBAIR. I think probably I have done enough talking. I think probably I should let one of my colleagues answer.

Mr. DENHOLM. Very well—I seek only the answer and testimony for the record.

Mr. TURNER. Mr. Chairman, my name is Dan Turner. I will make an attempt and I am sure some of my colleagues can add to it.

Without the mercantile exchange futures market, I think we would immediately get back to orderly marketing. I think the point Mr. Albair was attempting to get across awhile ago is that at the present time, and most every years, there does come a time, sometimes just a few days, when you can use futures trading to make a profit. He was stating that it is most usually the month of May. The month of November—the trades in November, if they get out to return the grower, topping production with a little bit of profit, would be some thing rare, in my opinion, sir, without going back and checking the

figures. I have not seen them for a long while. If you want a good price, you have to shoot for that month of May and it is just an impossibility for any one grower to hold all of his crop for this month.

Mr. DENHOLM. Do you know whether any of your growers in the State of Maine would consider it a disadvantage if they did not have an opportunity to hedge against the market.

Mr. TURNER. I am sure there are, sir, but the percentage would be very, very small in comparison to the total number of growers.

Mr. BALDWIN. Mr. Chairman, Danny Baldwin from Michigan.

My specialty is onions. As you know, futures trading was removed in 1958.

To help answer this question, we have returned in the onion business to normal supply and demand market procedures and we have not missed the benefits of futures trading and the hedging opportunities are not missed in our industry.

Mr. BULL. Mr. Chairman, we have another gentleman who would like to respond to that.

Mr. ROACH. Yes, my name is Arnold Roach. I am a grower and I also am a member of the Maine Potato Commission.

I would elaborate a little bit that the potato commission is a commission which is appointed by the Secretary of Agriculture in the State of Maine. We are composed of five growers, one processor, and one large potato shipper.

Now, the potato commission is opposed to the operations of the New York Mercantile Exchange. We are the ones who allocated the \$20,000 for the Maine Potato Council to use in any way that they can in their operation against the exchange.

Now, in regard to what would happen if the mercantile exchange was removed, I think it goes back to a little bit of my testimony yesterday that I feel that we would go back to normal merchandising practices—in other words, we would go back to the things that—there are many dealers, many buyers of produce in the city who would come in the summer months and in the early fall, who would actually come to the grower and buy the potatoes from him for a specified price. Normally, as we used to do before we had the exchange, we would even advance the grower for the thing. As it is now, when the grower goes to the exchange and hedges, it costs him \$35 a car and any advance in the ante, he has to kick it up sometimes. The farmer has been known to kick in \$1,000 or \$1,500 on every exchange, everything that he does on the exchange.

I think that if we went back to this, we would have more people coming into the business and buying the potatoes and actually owning the potatoes. These people—any time that you have people in the markets who own the potatoes, they are going to be involved in helping you get a higher price for your potatoes.

Mr. DENHOLM. Is it your testimony that the people that dominate the mercantile exchange are not producers?

Mr. ROACH. Yes, sir.

Mr. DENHOLM. Who are they, do you know?

Mr. ROACH. They are a very large—we call them, of course, the local Mafia up there. But they are made up mostly of people in the

New York area. Actually, it is an odd thing, the New York Mercantile Exchange on Maine Potatoes. We in Maine have absolutely nothing to say over the control of the exchange, even to the extent that our holidays in Maine sometimes do not quite jibe with those in New York, but it seems the New York ones prevail.

Mr. DENHOLM. I do not imply that the administrator of the Commodity Exchange Authority is defending those people in the marketing system of this country. Do you have any comment or criticism of the testimony of the Administrator of the Commodity Exchange Authority?

Mr. ROACH. Sir, would you—

Mr. DENHOLM. Were you present when the Administrator testified before this committee?

Mr. ROACH. Yes, I was, and I am in complete disagreement with his testimony. We have seen some pretty sad examples of manipulation on this exchange.

Mr. BULL. Mr. Chairman, my name is Chip Bull and there is a gentleman in the room, a producer from Colorado, Mr. Headlee Wright, who was a witness yesterday. It might be interesting to yourself and the members of the committee to learn how they hedge potatoes without the futures market in Colorado.

Mr. WRIGHT. In Colorado, as in many other areas—in fact, 85 percent of the potatoes in the United States are marketed not under futures trading. Idaho has very recently come under this and the growers of Idaho were not asked. It is very hard for me to understand why growers throughout the country, when they want something, they must vote at least two-thirds either in referendum or something to impose something they want upon themselves, but these things can be imposed and they are never even asked.

But 85 percent of the potatoes in the United States are marketed not under this type of system and we find no problem other than the normal problem of overproduction and supply and demand factors that work in our area. But we have no hedge in Colorado.

Mr. DENHOLM. You have suggested an interesting area of inquiry. I wonder if the activity of the board in the market makes the consumers cost higher or lower?

Mr. ALBAIR. I do not think it makes the consumers cost higher, but it makes the farmers price lower.

Mr. DENHOLM. Why has futures trading decreased on the board recently? Do you know?

Mr. BULL. I do not have any specific facts, but I do have some theories based on discussions on this question with a dealer in Maine and several other individuals.

No. 1, it seems to be that the person, the type of person who would be interested in gambling on the potatoes futures market might have now other opportunities to gamble, with the opening of the lotteries in New York, off-track betting in New York and the New Hampshire sweepstakes, et cetera. But basically, the market, the speculator is made up of a lot of small investors. I was searching in my bag just a few minutes ago to find the USDA or CEA report of November 1970, in which they list by occupation a number of individuals who are involved in the market on that particular day. The small

investor perhaps is a housewife in, let's say, Denver, for Headlee's benefit, who has saved a couple of hundred dollars out of the egg money and put it in the cookie jar. She decides that she is going to try to make a little money on the futures market for Christmas presents. So she goes to her local wirehouse, broker, says she has some money to invest and how should she do it?

So he says to her, do you want a fast ride or do you want a slow ride?

Well, she says, I would kind of like to have a fast ride.

So he says, all right, Maine potatoes is the fastest ride in town, because it is all over on May 10.

So being a lay person, which many of us are, and not really technically, not having the technical understanding of the futures market, he is not going to very subsequently ask her to sell short, because it is hard to explain how you are going to buy in the futures market by selling something. So he will suggest to her, I assume, that she buy Maine potatoes. Then when the price goes up, she can sell that paper back and make a profit.

However, many, many times, the price goes down and in order for her to get out of the market, she has to pay the difference between what she bought at and what they were being sold for at the time that she needs to liquidate. So she has been burned a lot of times. So now she is putting her money into Las Vegas or going to the horse races for that.

Mr. DENHOLM. The proposed bill relates only to Irish potatoes. What is significant about that? Is that the only kind of potatoes you people grow?

Mr. BULL. Yes, sir, but Irish potatoes—I do not have the technical definition but I can get it, but basically, it is opposed to sweet potatoes. Irish potatoes are all the light fleshed potatoes.

Mr. DENHOLM. Does that include all potatoes other than sweet potatoes?

Mr. BULL. Yes, it does. It includes all the varieties such as Katahdin and Kennebec, Russet.

Mr. DENHOLM. Can anyone explain how the price on the board fails to reflect the true relationship of the economic theory of supply and demand?

Mr. MOOERS. Mr. Chairman, my name is John Mooers from Houlton. I would like to attempt to explain that and also maybe to go along further on the question before.

To begin with, the sucker money, so to speak, is on the long side. The doctors, lawyers, and dentists, those people, always are more conditioned to thinking in terms of buying cheap and selling high. Most people are, as a way of making money. So these are the people that are usually the longs.

Now, the sophisticated money, the real professional guy, he is usually a short, because he knows, he thinks in terms, takes advantage of this condition, and he thinks in terms of making money by selling something that is up down.

Now, I think what has happened in Maine is just a kind of—it was mentioned in jest, probably, as the local mafia up there, but a lot of your professional shippers are also, they like the board and

they are usually shorts. Now, at one time, and although I am not going to attempt to document this, but usually, there's the old saying, where there is smoke, there is fire. Now, these people who are active, large shippers, actual cash shippers, were also quite active on the board and they were in with some people in the markets outside who are large distributors, who had outlets. And they were board players. So the next thing to do to make money is let's the two of us get together. So what has happened, it has dropped down a lot because of the heat of these hearings over the years, and they also know one of the reasons why the onion thing got abolished so easily was because they were wide open as far as abuses. They were not even trying to cover them. So they really could not argue too much. That is how they lost their case.

I think they have kind of slowed down, they are not so open on it. But there was a time when some of these people could go short by hundreds of cars on the board, and because they were actively involved also in the actual shipping of potatoes, could create a situation to bring about what they wanted, which ignores the supply and demand picture, because they were stronger.

You take big money with millions against a little smallplace up there in Maine, composed of people whose actions they can read. They know how farmers will react to rumors. They know how farmers will do this or do that, and they can use this knowledge to promote whatever activities or machinations they want to do.

I know that there was a time in Maine, when these people could go short on the board many hundreds of cars, and because they were actively involved in the business, could load up cars and have a heavy hangover over the market, which always gives the jitters, when you see a lot of potatoes around, to the average day-in-day-out distributor. When he sees a lot of cars piled up in Cedar Hill, a lot of cars piled up in the Harlem River, it does not really take a lot, because the market is that sensitive.

So these people, to protect the short position and to keep the board from going down, would invest heavily in cars to keep the market down. They invest—I think they feel the heat of these hearings and they have shortened themselves up and have stopped it to a great degree.

Plus the fact that the railroads have failed in their service. The mercantile thing is geared around the railroad. They need these cars, they need them for deliveries, they need them when they want them in case of a big delivery. The railroad has to know when, maybe there is going to be one so they have to have the cars pulled in from all around the country to get there. Now with the tieups in various places, they cannot do that anymore. The railroad can't seem to work with them. In fact, the railroad can just barely do just an ordinary job.

Since the railroad situation has deteriorated, plus a lot of other things—I could go on for weeks, really. This thing is really complex. But that is basically, I think, why lots of times it has no bearing on the demand and supply picture.

Mr. DENHOLM. Are you suggesting that a relatively few people are buying in the futures trading on the board, and that they can influence the prices received by producers?

Mr. MOOERS. Oh, yes, that is the thing that is bad.

Mr. DENHOLM. To the disadvantage of many producers?

Mr. MOOERS. Oh, yes, affirmatively that.

Mr. DENHOLM. What is the average size of a production unit of a potato grower? Do you know the average annual income of your producers?

Mr. MOOERS. Average annual income?

Mr. DENHOLM. Average annual gross income for potato growers, producers? Do you have any idea what that would be per farm unit?

Mr. MOOERS. No, it has been minus.

Mr. DENHOLM. It appears that you may not understand my question. I am asking about the gross annual income from production of potatoes per farm unit?

Mr. MOOERS. I think in Maine they talk like if every grower can get a decent price with a profit, I think it is a \$150-\$160 million industry on a normal year. That will bring that kind of money back up into our area. But on these poor years, it probably drops back to \$60 million or \$70 million or something like that.

Mr. DENHOLM. Did your executive secretary say that the average farmer, potato grower, operates about 80 acres?

Mr. BULL. Yes, sir, 87 acres, according to the University of Maine.

Mr. DENHOLM. Somebody was testifying yesterday, I do not recall who it was, that he had 40,000 pounds of potatoes—

Mr. BULL. 40,000 hundredweight, but I believe that was Mr. Parr from Idaho, where they do things quite a lot bigger than in Maine.

Mr. DENHOLM. I believe Mr. Parr testified that potatoes dropped in price about \$1 in 6 weeks or thereabouts.

Mr. BULL. Yes, sir.

Mr. DENHOLM. Now, I am concerned about the net income of the producers, but I am also interested in the average gross annual income from producing potatoes. Do any of you have any figures on gross annual income to producers for each farm family unit in your area?

Mr. BULL. I have that figure right here, Mr. Chairman, if I can just find it in this book.

From a bulletin put out on the 1969 crop of Maine potatoes by the U.S. Department of Agriculture, Consumer and Marketing Service, Federal-state Market News Service, fruit and vegetable division, on the 1969 crop, USDA says the value of production in Maine that year was \$77,220,000. The value of sales that year was \$66,088,000. This is based on a production of 35,100,000 hundredweight, at an average price sold of \$2.20 per hundredweight, which gives the \$77 million value of production.

Then take out the shrink and use for seed on farms where grown, feed and so forth, the value of sales is \$2.20 per hundredweight multiplied by the 30,040,000 hundredweight which were sold to give \$66,088,000.

Mr. DENHOLM. How many producers were involved in that final computation of gross annual production?

Mr. BULL. Dan said we have about 1400 growers. But back then, it was nearer 2,000. We have been losing them in the last couple of years, around 200 growers per year.

Mr. DENHOLM. So, to maintain essential gross income—each grower is producing more potatoes, but receiving less income for the production thereof?

Mr. BULL. Our acreage was reduced last year by approximately 5,000 acres, but Mother Nature treated up very well and we had almost 2 million hundredweight more production off 5,000 fewer acres. So the production is remaining relatively stable, but the farms are getting bigger in order to try to beat this cost-price squeeze which, without controls, without control of our own operation, is very difficult to do; in fact, it has been impossible.

Mr. DENHOLM. Thank you very much.

Mr. BULL. Thank you, Mr. Chairman.

Mr. FOLEY. Mr. Link?

Mr. LINK. Well, Mr. Chairman, a couple of my questions have been answered.

I was wondering, because it has been referred to, both yesterday and today that in your type of agriculture, you are blessed with one of the problems that many in the rest of our areas are, overproduction. We are chiefly in grain in my State, but we have potato interests also, and one of our people testified yesterday in support of this bill.

Recognizing this problem and thinking of overproduction, what have you done in Maine to help with respect to the marketing of potatoes?

Mr. BULL. Sir, my name is Chip Bull. I do not want to dominate these answers, but some of these fellows do not have access to the technical information.

As you know, every year, the USDA puts out what they call marketing guides. These are in advance of planting time. It is a suggestion by the Department as to how many acres of potatoes each State or growing area should produce. We have in Maine been abiding by those guides. We have been trying to do this. But the mere issuance of a guide—for instance, last year, the USDA came out with—this is an intentions to plant survey, which they also come out with. It was published just, I guess, at what should have been the close of our planting season in May, sometime in May. The headline or the report said that it looked like Maine producers were going to reduce their acreage by 10,000 acres. Now, can you imagine what farmers, as farmers, if you knew your neighbor was going to cut his acreage, what you would do? This I do not think helped us too much throughout the country, because nationally, and some of our friends in the West particularly, have taken that to heart and if Maine is going to cut 10,000, well, I guess we can increase just a hair. This is what has happened, and with the good weather we have had, overproduction and so forth.

And another thing, these guides—I have not studied them thoroughly enough, but it just seems to me from a cursory look at them that every year when they come out, the recommendation for reduction in acreage is based on the history of the previous year. So that if an area was increasing its production every year, their guide would be a little higher. By the same token, conversely, if an area was reducing its production, the USDA would say, well, you had

better continue to reduce your production and the guy that is increasing will continue to increase. I think they are not realistic at all and have no value other than to disrupt the system.

But we are trying to take their recommendations and see how far we can get.

Mr. FOLEY. Would you yield at that point?

Mr. LINK. Yes, Mr. Chairman.

Mr. FOLEY. This is a matter that has interested me, because I think it is almost paradoxical, the effect of some of these recommendations.

What you are saying is that if the USDA indicates there is an over supply of potatoes and it recommends a 10 or 11 percent reduction, that many farmers, assuming that there will perhaps be a reduction, will increase?

Mr. BULL. Yes.

Mr. FOLEY. On the other hand, if there is an "intention to plant survey" that indicates there is going to be an increase of acreage, everybody feels they have to increase in order to keep pace with the national increase. Is that right?

Mr. BULL. Yes, sir; and in addition to that, a forecasted surplus is going to reduce the price of a product that has not even been planted yet.

Mr. FOLEY. But on that point, is it not true, not only in potatoes but in other areas, that farmers often will produce more in the face of soft prices to try to make up in production what they lose in price, and if the price conversely is strengthening, they want to increase production in order to take advantage of the price. So either with soft prices or strengthened prices, the tendency is still strongly for production as far as individual farmers or growers?

Mr. BULL. Yes, sir.

Mr. FOLEY. Do you think it is possible to have any kind of adequate production discipline, so to speak, with just individual growers making their decisions on the basis of forecasts and price patterns?

Mr. TURNER. My name is Dan Turner. I will make an attempt to answer that and perhaps someone else can add to it.

I do not think, on a voluntary basis—and I gather this is what you are indicating—that it would work. I think this would have to be a national program in potato areas all over the country. I do seriously, in my own opinion, feel that this is being thought of more today than it has been in the past few years.

I hear, as I travel around and meet with growers in other potato areas, as they visit our areas and we talk with them, this is being thought about and talked about. I do not see it happening in the immediate future, but hopefully, it will come about before too many of us have to step aside.

Mr. FOLEY. Thank you.

Mr. DENHOLM. Will you yield for a question at this point?

Mr. LINK. Yes.

Mr. DENHOLM. Aren't you operating at the present time on a voluntary basis without price support and acreage quotas in the potato industry?

Mr. TURNER. Yes, sir.

Mr. DENHOLM. I do not understand your response to the chairman's question that you cannot continue to operate that way.

Mr. TURNER. I think, sir, the chairman's question, if I interpreted correctly, was in regard to acreage planting or production controls of some sort.

Mr. FOLEY. My question was, if the gentlemen will yield, I cannot see how national forecasts addressed to individual grower decisions can really be effective in production discipline when that discipline has to be voluntary, because the incentive to the farmer is always, it seems to me, to move up production regardless of what the price pattern is. There is an incentive if prices are soft to try to chase price with production, and there is an incentive when prices are strengthening to try to make a strong income from strengthening price.

My question, Mr. Denholm, was do any of the witnesses see how we can ever get production discipline unless we have something more in the way of an incentive or some control factor other than just voluntary decisions, thinking of the hundreds and thousands of individual growers.

Mr. ROACH. Mr. Chairman, my name is Arnold Roach.

As I understand your question, I believe that you are saying that we as growers can't control our production on a voluntary basis as individuals? In other words, it has to be done on something other than an individual basis. If this is true, I do concur with you that there is no way on God's earth that you can ever get all the growers together on a voluntary basis to do something like this. It has to be done at a higher level and it would have to be other than voluntary.

Mr. LINK. Mr. Chairman, pursuing this problem, at present, is there any indication that on an industrywide basis over the entire nation, potato growers might be considering getting together in a national organization and thus more effectively controlling the production and marketing of this produce?

Mr. MOOERS. Sir, my name is John Mooers. I think that that has been in the wind for some time and I would like to think—this is just my personal point of view—that we people here in the East have been waiting patiently on the people in the West. They are in an expanding mood, they are expansion-minded and I personally am waiting until they reach that point where they have to slash to maintain it. Then with that slash will come, possibly, a change in their philosophy, and then they will say, well, let's get locked in here and let's see if we can continue it and make a living.

I think the farmers in the eastern part of the country, even though they are just as much an individual, they are living under a harder thing than the people in the West, but we have been waiting patiently. Because it has to be a national effort.

I broach the subject sometimes in my travels in the National Potato Council with the boys in the West, and they lean toward it, but they have to compromise their production with the processor element. Usually, the processor element in these potato areas are death on anything like this. Whereas the small grower has a tendency, but out West, you have a large processor element, who also is a large grower element. So it just has not happened yet. It may not, but it is in the wind.

Mr. LINK. One final question, Mr. Chairman. That is the opinion of the gentleman here. Why should farmers' desires in this matter have precedence over the New York Mercantile market?

Mr. BULL. I think everybody in this room would answer that one, but I am going to take a stab at it. Because the guys on the New York Mercantile Exchange, the speculators, do not have the terrific investment in land, machinery, labor, and other risks in growing the crop. I would like, when I get home, to be able to supply some figures for the record as to what exactly the investment in Maine is, but just generally, as I recall, it is something like \$1,500 per acre that the farmer must invest. In other words, a 100-acre farmer has \$150,000 invested. That is just for the land, machinery, equipment to plant the crop.

In addition to that, he has fertilizer, seed, labor, and other costs that he has to incur.

With this large investment, it seems to me that he should have the control over how he is going to sell his product and not some individual who has put \$200 down to buy a paper contract.

Mr. LINK. That is all, Mr. Chairman, thank you.

Mr. FOLEY. Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

I have been gambling on my fruit farm ever since 1923, just the same as Art Link gambles on his farm in North Dakota and John Zwach gambles on his farm in Minnesota. The rest of my gambling consists of an occasional 5- and 10-cent game among very close friends.

Mr. ZWACH. Which has been most damaging?

Mr. GOODLING. The farm has been the most damaging.

My question is this: If, as most of you people say, futures trading in potatoes reacts against the farmer, would the same thing apply to futures trading in cotton, wheat, and feed grains?

Mr. Zwach said yesterday, maybe we should investigate this whole program of futures trading. Would the same thing exist?

Mr. BULL. Mr. Chairman, we do not have specific information on how it affects farmers in those other commodities. We do suspect that some of the same features would apply. However, we do know that you take note of the fact that some of these commodities are less perishable and the contract for them is not specifically for Texas cotton or Iowa corn or Kansas wheat, it is just cotton, corn and wheat.

In addition to that, they can roll those contracts ahead for years and years. But in the case of potatoes, come the 10th of May, you have to get out.

It is kind of like playing your 5- and 10-cent game, Mr. Goodling, where if you had a limit that says we are going to stop playing at midnight, and at 5 minutes to midnight, there is a heck of a scramble for the guy that is caught. He wants to get out and maybe if he is a high roller and has a little more money, he can buy a potato now and then to get out. That may be what happens.

I think just speaking personally, I believe most of the growers in Maine would welcome a review of the whole commodity futures market.

Mr. GOODLING. But you are pretty generally agreed, at least the producers are pretty generally agreed that futures trading in potatoes react against the producer. Is that a fair statement?

Mr. BULL. Yes, sir.

Mr. ROACH. Yes, sir, that is a fair statement.

Mr. GOODLING. That is all, Mr. Chairman.

Mr. FOLEY. Mr. Bull, in line with your answer to Mr. Goodling's question, would there be some improvement in the situation that you are now experiencing if the commodity trading that took place in the New York Mercantile and the Chicago Mercantile were in terms of potato futures rather than in terms of Maine potato futures or Idaho potato futures? Is there any aspect to the particular trading of regional production of that kind that makes the matter more serious in the case in point than if the futures were traded nationally?

Mr. BULL. Mr. Chairman, I am not sure just how to respond to that question, because we believe that the same forces of avarice and greed that come to play in the potato futures market on Maine potatoes could be made to work, perhaps to a lesser degree, if the base were broader. But they would still be there. I am not sure there would be any improvement from a grower's standpoint. There may be more stability among the speculators. But speculators can't live with stability, you know. They do not care whether the price goes up or down; this is the broker, the middleman. He does not care whether the price goes up or down as long as it goes one way or the other and often. So I am not sure whether there would be any improvement.

Mr. ZWACH. Mr. Chairman?

Mr. FOLEY. Mr. Zwach.

Mr. ZWACH. I would like to speak to these producers for just a very brief moment.

The time is here when pioneering in our business is no longer just production. Pioneering in our business has to be in marketing, in price, in distribution, in selling strength. Otherwise, somebody else will do it for you and often, they will do it to you. So we as producers need to be spending more time in these areas.

Thank you, Mr. Chairman.

Mr. FOLEY. Thank you, Mr. Zwach.

Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman. I direct this question to Mr. Bull—can you make available to me statistical information indicating the gross annual income per farm family unit for recent years?

Mr. BULL. Yes, sir.

Mr. DENHOLM. Could you furnish me a copy of those statistics that are available to you on the total production and the gross annual income of the growers per farm family unit?

Mr. BULL. Yes, sir.

Mr. DENHOLM. Then you could also ascertain from the crop and livestock reports the net income that your growers receive annually?

Mr. BULL. Yes, sir, I would be glad to do that.

Mr. DENHOLM. Then I am wondering, if I understand your answers to the questions of the Chairman correctly—are you suggesting

that you would rather be under price support and acreage quotas and allotments in your business and in the same manner as the wheat and the corn producers are in other areas?

Mr. BULL. Mr. Chairman, in response to that question, I do not think that we want to be under price supports individually. I do not think we need those. If we had substantial and workable controls which the farmers agree to themselves, but policed pretty heavily to stop the guy who is going to jump the fence, on not only production but on marketing so that the total supply would be in line with the demand, then the producer would get a price that he can live with and he would not need any price supports.

Sometimes a price support, if a person knows he is going to get, you know, a support for whatever he grows whether he can sell it or not, I think that may have a tendency to influence detrimentally the total supply situation and aggravate a situation which these programs are designed to direct theoretically.

So I do think that there are ways it could be done without price supports if we could have some mechanism to control the supply of the product going to market so that the consumer would have an adequate supply at a reasonable cost and not have these so called surpluses hanging over our heads all the time.

Basically, a surplus is kind of hard to define. There are not very many potatoes that are good potatoes anywhere in the country, with a few exceptions, possibly, that are ever dumped, thrown away. They are all sold and they are all used. If there are too many of them, based on somebody's forecast, then it takes a lower price for them. He is going to sell them, but at a lower price.

Mr. DENHOLM. I would like to try to put this into perspective here, that you are appearing before the Domestic Marketing and Consumer Relations Committee. I think as much as I am oriented around the producers' interests in this matter, we do have to keep in mind the consumer relationship on food commodities.

Mr. BULL. Yes, sir.

Mr. DENHOLM. Potatoes are almost as basic as wheat is in bread production. When you talk about regulating your supplies in order to have some impact on price, are you not talking about acreage or planting limitations?

Mr. BULL. Yes, sir.

Mr. DENHOLM. And you are saying that you do not want the Government to do it, but you believe that you can do it. Now, how are you suggesting that that should be done?

Mr. BULL. I did not mean to infer that we do not want the Government to do it. I think that if it is going to be done, it is going to have to be done by the Government. But I refer to a program that producers themselves can agree to, then ask the Government to put it into effect, and it will have to be mandatory controls on supply and production and marketing and all those phases. But everybody will have to be included.

Mr. DENHOLM. I ask the indulgence of the Chairman and other members of the committee for a further question because I am not from a potato area; I am from a wheat, corn, feed grains area. I can

say to you by way of comment that we have had price supports and acreage controls for many years. As far as I am concerned, they have not worked. Past programs have not served to encourage farm family units to remain in the industry.

Mr. BULL. That is right. I agree with you.

Mr. DENHOLM. Are you now suggesting that potato growers desire the same problems we have in the production of wheat, corn and feed grains?

Now, I would like to ask you gentlemen, any of you, whether or not the concern of these times isn't the problem of income to the farmers. That is the real problem—isn't it—the net income to the producers?

Mr. BULL. Right.

Mr. DENHOLM. If you had a program that would provide for full parity on a certain level of production—for instance on the first \$15,000 of gross annual sales from each farm family unit and then you went on the open market after that, could you discipline yourselves to regulate production under that kind of a program?

Mr. MOOERS. Mr. Chairman, if I may, I may be able to put some light on that.

My experience with price supports has been that usually, it is not based on parity but short of parity. But it tends to reaffirm banks so that there tends to be considerable production and it has a tendency to be over what we need. I know many times in buying potatoes, we have found that the surplus would be drained off to a starch factory or something and I have found myself competing with the method of disposing of this surplus in order to get potatoes to get out to the consumer. And many times, the best potatoes. Because a great many times, some beautiful potatoes were going into the starch factory and I had to get what I could to ship out to the consumer because it was a bulk thing, it was easily dispersed, it was uncomplicated, and the farmers many times would take that route, because price supports, usually the floor tends to become the ceiling, too. So you find yourself competing in a situation to do a job.

Mr. DENHOLM. I am suggesting to you as growers of a particular commodity that if you had a program that provided for payment, such as the wheat certificate, the difference between market price and parity on the first \$15,000 or \$20,000 of gross annual sales per farm family unit, so that you had a base production quota to satisfy production costs could you find self-restraint in production among your growers and live with that kind of a program? There would be no incentive to overproduce up to \$100,000 worth of gross annual sales if a producer was eligible for parity on only \$15,000 of gross sales per year. There would be no incentive for the corporation or the big operator to runover his neighbors and force them out of the market if he had to accept a very low price on his overproduction. Could you achieve the self-imposed restraint that you need to secure a balance in the market in an orderly manner under such a proposed base plan for each farm family unit?

Mr. MOOERS. I don't know.

Mr. DENHOLM. I do not know what the experience is of a farm family operation in the potato industry. That is what I am seeking to learn from you as a witness, sir? What is the solution to your problem? You are here to oppose, as I understand it, futures trading in the potato marketing business. I favor that proposition but does that fix your problem?

Mr. BULL. No, Mr. Chairman, that would be only one of the problems that we have.

Mr. DENHOLM. Your real problem is a deficiency of income for your growers as individual farm operators, isn't it?

Mr. BULL. Yes, sir, and the futures trading of paper potatoes contributes to the lessening of income. But there are other problems that we need to address ourselves to such as those you suggest, and these are basically production and supply problems; in addition to that, orderly marketing and organized marketing, consistent flow to market.

Mr. DENHOLM. I agree with you 100 percent. But I want to know and I want the record to show whether you would be better off with price supports and acreage controls, which we have experienced in wheat, corn and feed grains. I can say to you that it has not helped our farmers and I will appreciate knowing from you what price supports and production controls will do for producers of potatoes?

Mr. BULL. I would like to respond to that by saying, no, we do not want the same kind of programs that you have that are now in wheat and some of the other commodities, because they have not worked. I think basically one reason they have not worked is they are not farmers' programs. They were not developed by farmers. They were developed by an agency.

I would like here to further identify myself, that before I became executive vice president of this organization in July of 1969, I spent 13 years with ASCS in varying positions, started out as a farm reporter in the county office. My last service with that agency was as State executive director of that agency. I know from my own experience that many of these programs are not developed by farmers, they are developed by individuals who want to keep a job. To keep a job, you have to have something to do. So you have to have paper, you have to have forms to fill out, you have to have all these elaborate technicalities to make sure it works. And the farmer, if he does not agree with you to start with, if he has not had some pretty strong input in developing the program, he is going to find a way to beat that every time, because it is not his program.

Mr. DENHOLM. That is exactly why I asked the indulgence of the chairman and members of this committee to inquire into this problem while you people, the growers and farmers, are here, and to ask you if there is a solution to your problem. I can say unqualifiedly that I do not like futures trading in beef, corn, wheat, or anything else. I think this whole area of marketing is for investigation, as Mr. Goodling has suggested. But I am wondering if that is really going to solve the problem of the deficiency of income to your potato growers or the potato industry. What is your answer to that?

Mr. BULL. The answer is in my opinion, no, it will not. But it will attack at one section of the problem.

Mr. DENHOLM. It will stop people from exploiting you while you are searching for something else.

Mr. BULL. This is one thing. We are all searching for answers to the problems and trying to come up with a solution. We do not know what the solution to the whole problem is, but we do know that futures trading is bad. If we eliminate that, that will have one beneficial effect. Hopefully, then we can get on to some of the other areas that need our attention.

Mr. DENHOLM. Mr. Chairman, I want to thank you and I apologize for inquiring into an area that is beyond the scope of this particular hearing.

Mr. FOLEY. The Chair is just going to ask you a couple of questions, because I note your departure schedule is going to require that those in attendance leave very shortly. I am going to pursue a little bit further the questions that were raised by Mr. Denholm and others.

It is sometimes suggested that production controls have not worked. My reaction to that, just a little bit, as a preliminary comment, is paraphrasing an old 19th century debate on religion between G. K. Chesterton and Bernard Shaw. Shaw said that Christian principles had been tried and found wanting, and Chesterton replied that they had been wanting and not tried.

I have some feeling that we have not been successful in some of our programs because we have not sufficiently managed to control production. The essential problem, I think, in so much of agriculture is that the tremendous technological capacity of American agriculture just continually outstrips our marketing capacity to market the crop, either in domestic or export trade. I am extremely pessimistic about hundreds of thousands of individual producers being able to bring supply management into effect without some kind of overall inducement or mandatory controls on the part of government.

One of the two questions I want to ask, and I think it has been covered in earlier testimony, but I want to make sure: Is it your experience that the demand for Irish potatoes—particularly the fresh potatoes we are talking about now—is fairly predictable and stable and goes up as the population goes up, but it does not fluctuate widely because of price?

Mr. BULL. That is correct.

Mr. FOLEY. And is it your experience that in soft price conditions, the price for the consumer in the supermarket does not vary too much between high and low price factors to the producer? Is that correct?

Mr. BULL. Yes, sir, Mr. Chairman. In fact, it may even advance to the consumer in soft price times to the farmer.

Mr. FOLEY. It has been suggested, too, that supermarket costs are more reflective of other factors in what they pay for the particular basic commodity to the producer.

Mr. ROACH. Mr. Chairman, might I interject?

In this regard, Monday morning, I was talking to a friend of mine who is a producing manager, runs several chainstores in the Greater Boston area. He told me that although he was paying 35 cents for a 10-pound bag of Maine potatoes delivered to his store in the Boston area—now, I remind you, this is delivered, with the cost of the bags,

the package, the transportation—he was paying 35 cents for 10 pounds of Maine potatoes, and he was selling them on the shelf for 85 cents. All he had to do was lug them from the rear of the store to his produce counter.

I asked him how long he had been selling them for 85 cents and he hesitated a minute. He said, gee, it has been so long since I changed my price, I have forgotten now just when it was.

Mr. FOLEY. Well, it is my concern that where commodities are not particularly sensitive to increased consumption because of price, where low prices to producers are not necessarily low prices to the consumer, we have a special problem. Part of our difficulty in the Agriculture Committee is to persuade our colleagues in the House who are not closely connected with agriculture that strong farm income is not necessarily a detriment to the consumers. What you are saying, I understand, is that potatoes are definitely not a 1-to-1 ratio, where low prices to the producer mean lower or more attractive prices to the consumer.

Mr. ROACH. That is correct.

Mr. FOLEY. So it is possible that low prices just hurt the producer and do not help the consumer.

Mr. BULL. Yes, sir.

Mr. GOODLING. Mr. Chairman, may I ask one question along that same line?

Is there too much spread between what you as producers receive and what I pay in the supermarkets for a bag of potatoes?

Mr. TURNER. Mr. Chairman, my name is Dan Turner. In answer to your question, yes.

Mr. GOODLING. There is too much spread?

Mr. TURNER. Yes.

Mr. GOODLING. When I go into a supermarket and see six apples priced at 69 cents, I know the producer is not getting most of that 69 cents. When I go over into the Capitol dining room and buy a baked apple, which I do occasionally, and pay 40 cents, I know that if the man who produced that apple got 4 cents, he was darn lucky.

So what can we do about this? This is part of our problem as I see it, as a fruitgrower, and you people in potatoes. What can we do about it?

The same thing is true of the apples grown out in our chairman's district. There is one of our problems. How do we solve it? I do not know.

Mr. BARNES. Mr. Goodling, my name is Ronald Barnes. I would like very much to give an example of the very thing we are discussing here this morning.

I grow 250 acres of potatoes, have an investment of over \$300,000. Last winter, I shipped a lot of seed potatoes to Long Island, N.Y. Last winter, I loaded seed potatoes—I grew those potatoes, lived with them all summer, harvested them, put them in an expensive warehouse, I took a crew in there and sized them in various sizes and put them in a 100-pound bag that, incidentally, cost 27 cents, and got a truck at my back door to go to Long Island. I got \$2.40 a hundred for those potatoes.

Very casually, I said to the truckdriver, what are you getting to take these to Long Island? He said, \$1.25. Now, I have gone all the way with this crop, the investment, the entire thing.

One more thing I would like to bring up about the controls. It gets back to what we are down here for today, has some bearing on it. When we get an acreage guide in Aroostook County, and I would like to speak for Maine, because I am not qualified to speak for the other areas. When we get an acreage guide that says Maine growers should cut 8 percent, that is broadcast, discussed. Mr. Bull, our executive secretary, comes out on television and says, boys, this is what our recommendations are, you should stay with them, and we listen.

But what happens? There is a certain amount of fallout in every industry. Everybody should not sell shoes, everybody should not grow potatoes. Here is a man who has made up his mind, he is out of the picture. Now comes along your fertilizer company and says, look Joe, let me shove you through a hundred pounds of fertilizer, I will hedge it on the board, I will see you through the summer. That will happen as long as Maine has potatoes.

Thank you, gentlemen.

Mr. FOLEY. Gentlemen, let me say, and I am sure I speak for all the members of the subcommittee, that we are very grateful to you for taking the time to come away from your own schedules and businesses and families to appear here today. I am not going to comment on the testimony that was raised about the propriety of expending Maine tax funds to help bring you here. That is a problem for Maine and not for this committee. I do not have any personal question about it, though, I would hasten to say.

But aside from that, we who are in Congress and who sit on these subcommittees and committees have an enormously difficult problem in agriculture. It is an extremely complex area of production, marketing, price structures. They are not easy questions to resolve. They involve not only this committee but the entire House and the other body. In balancing the interests of an enormously large country with the most complex economic system that has ever existed in history, it really defies the talents of even the most able of us. You have helped in that consideration to a very large degree and I know that you have done so at sacrifice. I want you to know that the subcommittee deeply appreciates your efforts to help us in considering this legislation.

I want also to announce, as I did yesterday, that there will be additional hearings. The schedule will be 10 o'clock on March 16, and if necessary, March 17, and that the record will remain open for a short period of time following the conclusion of the hearings in March, and that following the closing of the record, I will call the subcommittee into session for executive consideration of the legislation before us.

Off the record just a moment.

(Off-the-record discussion)

Mr. DENHOLM. On the record, Mr. Chairman, I commend you and your statement is correct. I am adamantly opposed to the specula-

tion in agricultural commodities and the excessive monetary gap between the producer and the consumer. I think it is our responsibility to seek the truth. I am hopeful that we as a committee can reach some conclusions as a result of diligent and honest inquiry—whether it is grains, livestock, apples, or potatoes.

Mr. BULL. Mr. Chairman, could I have the indulgence of the committee for just a moment?

Mr. FOLEY. Yes.

Mr. BULL. I have a short letter that came to me, addressed to me, dated the 18th day of January, which I would like to read for the record with your permission. It is very short.

Mr. FOLEY. Proceed.

Mr. BULL. Monticello, Maine, January 18, 1972.

Mr. Bull: I was watching the news on the television last night. When they announced that Merl Johnston the Mercantile boy said it was too bad to spend tax payer's money for to help pay for the trip to Washington. It wouldn't make any difference where the money comes from. What would be the difference than letting the Mercantile have our potatoes to gamble with? As you know our potatoes is our money. That damned thing isn't any good. never was any good, and never will be any good, only for a bunch of gamblers. We have to pay these taxes both real estate, personal, and all other kinds of taxes, where lots of people that puts prices on our products we have to sell to get a living, never owned a foot of ground in their life. I'll tell you right now Mr. Bull if we don't get a price for what potatoes we have left this town here and as I see it all towns in the county are all done because there is no way that we can prevent it.

The town I live in voted to raise \$140,000. Now there are seven potato handlers and shippers in this town. If something don't happen right quick these potato handlers and shippers has got to pay \$20,000 each taxes because the farmer that's not shipping his potatoes is not going to be able to pay any tax. I don't know anything about the financial condition of these seven, but I do know about the financial condition of the grower that does not ship his potatoes.

I pack my own potatoes. We have received this year the best seven cents per 50-pound bag.

In the chain stores in Houlton they are selling and have been selling for \$2.09 for the same 50-pound bag.

My way of thinking is the reason the Mercantile come up, was on account of your planned trip to Washington. A. E. Moor's C. O. man told me that the reason the Mercantile come up was on account of the January report. But I'll be damned if I believe him because it wasn't good enough for that.

Another Mercantile buyer operator told me if the market raised any here Canada would come in and drive it down again, which I don't believe that either. I've been here 66 years and growed potatoes all my life. And it looks to me that it's just a case of dog eat dog. But as I see it, the little dog is pretty near eaten up. That Mercantile is no good. I hear them telling what they can sell potatoes for on the Mercantile, and what a help it is to this county. As I remember, 2 years ago, the last day of trading on it the thing went clear to the bottom. It looked to me as things didn't suit the Mercantile at that time. And it seemed to me as though they thought they would drive her down and we could do any damned thing we wanted to do. You and I both know that in order for survival in our county there is somebody has got to live as well as the gambler.

I know you will do what you can if you do go down there.

You can tell Mr. Johnston or show him this letter if you wish, that it didn't make any difference whose money, taxpayers or anybody's, it's better than the Mercantile.

I wish you the best of luck.

Sincerely,

J. M. CARMICHAEL.

Mr. DENHOLM. Off the record.

[Off-the-record discussion.]

Mr. FOLEY. On that serious note, I am going to adjourn the hearings with, again, our appreciation for your appearance and testimony and your patience over these 2 days of hearings. We have been delighted to have you here at the subcommittee in Washington and the subcommittee, I know, joins me in wishing you a safe trip home.

The Subcommittee on Domestic Marketing will stand adjourned to meet at 10 o'clock on March 16, 1972.

(Whereupon, at 11:40 a.m., the subcommittee was adjourned, to reconvene at 10 a.m. on March 16, 1972.)

London, 10th March 1841

My dear Mr. Taylor

I have just received your letter of the 2nd inst. and am
glad to hear that you have been so successful in your
researches. I have been thinking of you very much
lately, and wondering how you were getting on. I
hope you are well and happy. I have been very
busy lately, but I have managed to find some time
to write you a few lines. I have been thinking
of you very much, and wondering how you were
getting on. I hope you are well and happy. I
have been very busy lately, but I have managed
to find some time to write you a few lines.

PROHIBIT TRADING IN IRISH POTATO FUTURES

THURSDAY, MARCH 16, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING AND
CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

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

Present: Representatives Foley, Sisk, Denholm, Link, and Zwach.

Also present: Representatives Poage (chairman of the full committee) and Hathaway, Christine S. Gallagher, chief clerk; and and Lacey C. Sharp, general counsel.

Mr. FOLEY. The subcommittee on Domestic Marketing and Consumer Relations will come to order.

The subcommittee will be hearing today from a number of witnesses in relation to H.R. 7287, by Mr. Hathaway and Mr. Kyros, to prohibit trading in Irish potato futures. The first witness will be the Hon. Elmer H. Violette, State senator, from Van Buren, Maine.

Mr. Violette.

STATEMENT OF HON. ELMER H. VIOLETTE, STATE SENATOR, VAN BUREN, MAINE

Mr. VIOLETTE. Mr. Chairman, members of the subcommittee, I am Elmer H. Violette, State senator, and I reside in Van Buren, Maine. I am also a practicing lawyer there. Also, I am senate minority leader in the State of Maine Legislature. My senate district is in Aroostock County—90 percent of Maine potatoes are grown in Aroostock County.

I appreciate the opportunity to appear before you to urge favorable consideration of H.R. 7287, introduced by our two outstanding Maine Congressmen, Representative Hathaway and Representative Kyros, to eliminate futures trading of potatoes on commodity exchanges.

For 15 years the overwhelming majority of our Maine potato growers have asked the Congress for relief from this burden. You have heard our growers, their representatives, officials from State of Maine and national grower organizations wholesalers, and others in the potato industry, tell you why futures trading is damaging to our potato industry and to our farmers—without any resulting benefits to the consumer.

I want to tell you about our people in Aroostook County, a county which for decades was one of the finest agricultural areas in the Nation, and what has happened in the agricultural field there in the last 15 years. Perhaps not too many people at this hearing will touch on this.

1. We had close to 5,000 farmers and growers 15 years ago; we now have about 1,500 growers.

2. My own community of Van Buren had in excess of 25 farmers 15 years ago; there are 6 left.

3. Aroostook County has seen a decline in population from 110,000 in 1960 to 94,000 in 1970—a loss of population of 16 percent. My own community, a potato farming community, suffered a decline in population from 4,700 in 1960 to 3,970 in 1970, a decline of 17 percent.

4. Many of our businesses have disappeared. Van Buren had 4 prosperous farm machinery dealers 15 years ago; there is none today.

5. The Farmers Home Administration is now the single largest land owner in my county—due to foreclosure on farms for defaulted loans.

6. Major areas in our county have been declared economically, distressed areas—with high percentage of chronic unemployment.

This is not a pleasant picture for us to face—as we look to the future. It is not my intention to downgrade my own State and county—but to give you a realization of the problems of our potato growers and of our people.

While the loss of a major part of our farming industry and people has impoverished the beautiful rural life in my county, conversely, the outmigration of our people to the already overcrowded urban centers of the Nation has compounded the insoluble problems of our cities.

Due to Maine's geographic location, with a short growing season, we cannot easily diversify our agricultural industry. Diversification from potatoes is further hampered by the high cost of mechanization.

I am fully aware, Mr. Chairman and members of this committee, that futures trading of our potatoes has not been the sole cause of Maine's potato industry problems. I guess we do not always do the best job of marketing and quality control. There are problems of overproduction nationally. Farmers nationally have been in trouble.

Some case can be made, or some will tell you at this hearing, that futures trading can be used to good advantages as a hedge. But the futures trading market is not controlled by the hedger—farmer—it is a speculator-controlled market—and the volume of trading as against deliveries clearly establishes this fact.

On balance, I am convinced that the futures trading of Maine potatoes operates to the disadvantage of our grower; that it does not promote the orderly marketing of our crop. It is, therefore, a detriment to the entire community and economy.

Considering all the burdens facing our Maine potato growers today in their struggle to stay on their farms, which I believe ought to be encouraged, they are entitled to be relieved of a burden they have never asked for and which they have always overwhelmingly rejected.

I hope your committee and the Congress will hear their plea. Thank you.

Mr. FOLEY. Thank you very much, Senator. We appreciate your testimony.

I am a little concerned that there are not enough seats in the hearing room, apparently, to accommodate all the visitors.

I see that Governor Curtis has just come in.

Governor, would you like to come forward? We shall be very happy to hear your testimony.

It is a pleasure to welcome you to the subcommittee this morning, Governor.

STATEMENT OF HON. KENNETH M. CURTIS, GOVERNOR OF MAINE

Governor CURTIS. Thank you, Mr. Chairman, members of the subcommittee. I hope I have not delayed you in any way.

Mr. FOLEY. No, we went ahead with Senator Violette's testimony, knowing that you would be delayed.

Governor CURTIS. Mr. Chairman, I very much appreciate this opportunity to appear before you this morning, along with, I think, a packed hall of my fellow citizens from the State.

It is true that for almost 20 years now, legislators from Maine have been trying to do away with the futures market on the trading of potatoes.

This bill that we are discussing today is the latest in a long series of attempts to free Maine potato farmers from a situation that they consider onerous and injurious.

Let me put the situation in perspective.

It seems somewhat astonishing that until recently the futures market in potatoes applied only to Maine potatoes.

Even now, when some Idaho potatoes have been added, we are only talking about 25 percent of the Nation's potatoes.

The other 75 percent do not operate within the futures market and, at the same time, do not experience the same difficulty that we do.

Why should the Congress of the United States be burdened year after year, as they have been for 20 years now, with the complaints of potato farmers within the futures system, if there is not something intrinsically wrong with the system itself?

It is our earnest hope that we can relieve you of the necessity of listening to us every year, for it is evident that if this bill is not passed, our condition will not be alleviated and we will be back.

There is strong support—I might say overwhelming support—in Maine for the elimination of potato futures trading.

In separate referenda over the years, more than 80 percent of Maine's farmers have indicated they want to do away with the system.

On February 25, 1971, the 105th Maine Legislature, acting unanimously and in totally bipartisan fashion, passed a memorial to Congress supporting legislation to ban the trading of Maine potatoes on the futures market. We are joined in this desire by virtually every potato farm organization in the United States.

Our brother farmers in Idaho, now operating under the system, have called for its elimination.

We have even received encouragement and support from the onion growers association, who have had to deal with a similar problem in their industry.

Why, then, if there is so much opposition, has this system managed to maintain itself?

If the farmers don't want it, who does?

And why are these forces powerful enough and determined enough to continue a system that is bringing no benefit to the people who have to do the hard work of growing the Nation's potatoes, nor to the consumers of this Nation who buy them.

The answer—as it is so often—is money.

There is great profit in gambling on potato futures.

It's true that there can be great losses as well.

But the fact that a man faces the risk of losing several hundred thousand dollars in a potato future transaction is hardly justification for continuing this little game of potato roulette.

The speculator enters this market always with the hope of making money and often he does—very often he does.

For if the chances of winning were not greater than the chances of losing, then we wouldn't be here today bothering you.

The potato futures market would have collapsed of its own weight.

But what about the farmer?

What are his chances of winning?

He doesn't have just to fight the vagaries of the market and/or the subtle manipulation of clever speculators.

He has a few other things he has to contend with—like weather and disease and costs of equipment and labor and all the many factors that go into probably the riskiest business in the world—farming.

On top of this, he then has to deal with what the potato speculators have told him in his great chance to withstand the potential harm they can cause him—namely, something called “hedging,” which is another form of gambling and one in which the farmer has far less chance than the average player in the casinos at Las Vegas.

We are back to an age-old argument here.

Who is to get the major share of the fruits of a person's labor?

Is it to be a farmer, who does all the work?

Or is it to be the finance man who adds little in the way of intrinsic value, but does play a role in distributing the product to market?

The trend in American society has been to give more of the fruits of a person's labor to the person who performs that labor.

This is true in industry.

And it is true in many aspects of farming.

Even of potato farming.

Except in Maine—the last stronghold of the potato futures gamblers.

Maine's potato country in Aroostook County and to some extent in Penobscot County is hardly experiencing prosperity.

Just the opposite is the case.

We have to go back to the depression in some areas for a comparison with the difficulties that our potato farmers are having.

Foreclosures are a daily occurrence—foreclosures not on marginal farmers, but on some of the best and most experienced potato growers in Maine.

In the last 7 years, Maine has experienced a 25 percent decline in the number of its farms statewide, which is bad enough.

Yet in Aroostook County, among potato farmers, the decline has been a startling and disgraceful decline of 40 percent.

In the past decade, Aroostook County has experienced a 12.8 percent decline in population.

Unemployment in January was 9.7 percent in the county and in some places, particularly in the Fort Kent area, was over 14 percent. And let's look at potato prices.

It is estimated that the cost of production to the farmer is \$2.40 a hundredweight.

For the last 5 years, the average price paid has been less than this, the highest being \$2.20 a hundredweight or 92 percent of the cost of production. Last year, the average price was even lower at \$1.98.

This year, to date, the average price is even lower.

Is it any wonder, then, that Aroostook County has economic difficulties?

Is it any wonder that the farmers of this region are seeking any means that will help alleviate their difficulties?

We are well aware that an end to the marketing of potato futures will not solve all of our problems.

But there is a parable, as you all know, about "a straw breaking a camel's back."

The burden of the potato futures system is just one more obstacle to the restoration of a healthy economic condition in Maine's potato growing country.

It is a system that benefits a few at the expense of many.

We don't like it in Maine.

Most of us have never liked it.

We hope sincerely that you will help to put an end to these periodic visits of ours to Washington and approve the legislation before you that will ban this unsatisfactory and harmful practice once and for all.

Thank you so much for letting me voice my opinion.

Mr. FOLEY. Thank you very much, Governor Curtis.

Before I ask the committee members if they have some questions, I think perhaps we ought to try to make a little additional space available for our guests. If any of the witnesses who are scheduled to testify would like to come up to the dais, we will make some additional space.

Senator Violette, if you would like to come up here and sit with us at the top of the table, you may.

At this time, we shall have questions of Governor Curtis.

Mr. Sisk?

Mr. SISK. Mr. Chairman, I want to commend the Governor for making a good statement on behalf of his constituency.

I think certainly he makes a very pointed, well-phrased argument.

I certainly appreciate that, Governor.

Mr. FOLEY. Mr. Denholm?

Mr. DENHOLM. It is a pleasure to see the Governor of the great State of Maine.

Governor, I appreciate the forthright statement you have made this morning. The deficiency of income to farmers is not necessarily limited to the people in the State of Maine. That is a truth characteristic of farmers all over the United States.

I really wonder if you know how directly speculation affects the deficiency of income to producers in the State of Maine. Can you tell us how it affects the income of farm people there?

Governor CURTIS. Of course, we are the first ones to say, the farmers themselves are the first ones to say that this is not the only problem they face, but they feel very strongly the necessity of hedging that forces them to accept prices which have been inadequate and which they have little control over. They have informed me that they believe that the system forces them into perhaps selling their crops some 6 weeks each year in the season later than they should be selling it, and it puts them into competition with some of the southern potatoes that have been coming off the market.

Again, there are just so many obstacles, as you know, to the farmer today, and particularly to the potato farmer. This is just one of them, but any of the obstacles we can eliminate might help put health back into this industry which is so important to our economy.

Mr. DENHOLM. Is it true that as the number of farm families decreases, the size of production units has increased?

Governor CURTIS. To some degree. I think this is true in all of agriculture, basically, and I think the important statistic is the fact that if the potato farmers were only declining at 25 percent in Aroostook County, you could say, well, this is the trend today in agriculture, because the other farmers are decreasing at that rate in Maine. But it is almost double among the potato farmers in Aroostook County.

I think this is some indication that they are affected more severely than the other types of agriculture in the State, which are not all that healthy, either.

Mr. DENHOLM. Thank you very much, Governor.

Thank you, Mr. Chairman.

Mr. FOLEY. Mr. Zwach?

Mr. ZWACH. Not at this moment, Mr. Chairman.

Mr. FOLEY. We are very happy to recognize the Chairman of the full committee, Mr. Poage of Texas.

Well, Governor, thank you again for your appearance here today. We are pleased that you would find time to attend the hearings and give us the benefits of your recommendations and comments. I know the schedule of the Governors of States, knowing my own Governor's schedule, is enormously busy. We shall be very happy to have you come up and stay with us as long as you can, but I also understand that you probably have other appointments and pressing matters here in Washington to attend to, so we shall understand any time you would like to leave.

Thank you very much.

Governor CURTIS. Thank you very much for your courtesy, Mr. Chairman.

Mr. FOLEY. I am going to follow the practice we have established in the subcommittee and try to have witnesses give their testimony and then recall them following that for questions by the committee. I think everyone recognizes that we have an enormous number of witnesses scheduled for these hearings, and I think we shall take them probably in groups of about five, first hearing the testimony, and then calling you up in groups of five for questions by the committee members.

The first witness we shall now hear from will be Mr. Leo Melamed of the Chicago Mercantile Exchange, Chicago, Ill.

Mr. Melamed.

**STATEMENT OF LEO MELAMED, GOVERNOR AND MEMBER, CHICAGO
MERCANTILE EXCHANGE, CHICAGO, ILL.**

Mr. MELAMED. Mr. Chairman, members of the committee, thank you for this opportunity to appear and briefly testify on this important proposal. My name is Leo Melamed and I reside in the Chicago area. Most of the witnesses who have, or will appear before your committee have either agricultural backgrounds or formal training in economics. I have neither. Rather, my background is urban and my professional training was law.

One might then ask by what reason do I appear here today. The answer is quite simple.

Even while in law school, I became fascinated with commodity futures. Their reason for existence, their economic necessity, the manner in which they worked, why they went up and down, and their general function as a complement to agriculture, all these served as an enticement and excitement to me. Thus, after some years of generally successful law practice, I decided to immerse myself into this world of commodities.

I am presently one of the governors of the Chicago Mercantile Exchange and recently completed my third term as chairman of the board having served in this capacity from 1969 until January.

I come to you then, not only as someone who channeled his legal training towards the various ramifications of law as they affect or are affected by futures, not only as one who participated at the highest level of exchange administration, but also as someone who has become a practical economist and who practices what he learned as a speculator in the rough-and-tumble world of commodity futures.

Thus, I respectfully wish to address you and this important question by concentrating on some of the things I have learned.

Farmers and farm prices have always played an important part in our Nation's economy. In recent years, however, more so, than in the past, they have attracted our attention not only as an economic problem, but also as a social and, of course, political problem.

If I learned nothing else from my experience, I learned one thing—that whenever a farm problem posed some seemingly insoluble proposition, there were some farm groups who always blamed it on

commodity futures if they could. To them, here was a perfect scapegoat. To blame it on a futures market didn't upset too many political forces; there weren't too many around who could fully understand the fallacious nature of their argument or expose it; it was unlikely to become a heated public question; and it would easily serve as a tool to soothe the farmers involved, and have them believe that the source of all their problems has been found.

Nothing could be farther from the truth.

I would hope to convince you that the opposition to futures trading in Irish potatoes stems from a variety of causes—a lack of understanding, frustration with overproduction, rising costs of production, competition between large organized producers and small disorganized ones, competition between producing areas and other food products, and the general dissatisfaction of farmers with prices they receive.

To find an easy cure-all to the foregoing problems would indeed be wonderful.

To think that they are caused by a futures market or solved by the abolishment of same—is illogical.

All evidence overwhelmingly indicates that the prohibition of futures trading would not result in higher prices, but would deprive producers of their most effective marketing tools which can help them immensely if properly used.

True, there are those who use it improperly.

True, there are those who contend that they have superior knowledge of supply and demand conditions and, therefore, use the market as a speculation rather than an insurance policy. And when they get hurt—blame the futures market rather than their own improper use of it.

But I ask you gentlemen to examine such complaints.

Are they complaints of the grower who hedged a portion of his crop at a price profitable to him and later, on maturity of the contract, either liquidated his futures position and sold his crop in normal marketing channels, or delivered his potatoes on the exchange if that was more to his advantage.

I dare say that such a grower finds no complaint, for in neither event was he adversely affected by the price movement of potatoes subsequent to his hedging transaction.

Rather, the complaining party is the grower who, subsequent to his initial hedge, continued to deal in the futures market assuming he knew what the eventual price would be. Such a grower has now turned speculator, and if the end result is that he was wrong—whatever the reasons for his loss—has he the right to complain?

And if the answer is, "Everyone has the right to complain," then I ask you, has this grower-speculator a right to bring his complaint before this august body? And further, to ask this body for vindication by closing the market on which he was an unsuccessful speculator?

I submit that reasons such as these and similar are not nearly reason enough to do away with an economic tool that has served this Nation and its agriculture so well for so many years.

I doubt very much if our Nation's agriculture would have reached our position of plenty were it not, in a large measure, due to the existence of futures markets.

Allow me to examine their beneficial characteristics and the vital economic functions they perform, particularly with respect to potatoes.

(a) A futures market on an exchange makes price protection possible through hedging. Regardless of a grower's or dealer's or processor's efficiency, adverse price movements can cut deeply into profits and even cause disastrous losses. Through the proper use of Idaho potato futures trading, most price risks can be transferred to the speculator who wants to assume the risk.

The speculator provides liquidity in the market, or in other words, makes it easier for industry personnel to get into and out of the futures market since he accepts the price risks. Market economists generally agree that a high level of participation in the market provides a broader, more stable market. Thus, growers can use the futures market to protect themselves against a drop in cash prices, and the potato dealer or processor, through the proper use of hedging, can protect himself against a cash price increase.

(b) Futures act as a barometer for the industry. Combined with private and government reporting services, the futures market adds another carefully estimated outlook on Idaho potato prices in the coming months. This indication of price expectation can help a grower or processor immeasurably with his planning.

(c) An active futures market, it has been proven, tends to reduce extreme price peaks and valleys in a commodity over a given period of time, thus stabilizing prices and farmer risks in the long run.

(d) Our exchange compiles and disseminates, in an organized manner, all the pertinent information and statistics concerning a market. Thus, a wealth of public information is provided through the CME including daily prices, volume and other figures gathered by and disseminated from its statistical department. This information is broadcast, published, and mailed in daily reports enabling anyone who may be interested to keep a close watch on market conditions.

(e) Better credit and financial assistance are often available because a lender is assured that the potatoes can be delivered or purchased at a specified price. In some cases, a lender will actually hold futures contracts, made by a grower, as collateral for a loan. As a result, the farmer can utilize his additional credit power for farm machinery, expanded production, or modernized operations.

These are but the basic economic benefits from a futures market. It can be fairly obvious that each of the foregoing have many other beneficial uses and valuable economic ramifications.

Organized futures exchanges were first utilized in Japan in 1960, but certainly their history predates the rice exchange, and indeed can be traced back to biblical times when Joseph went to the Pharaoh to tell him of his dream and how to protect himself from the coming famine—and perhaps even before that. Organized futures trading in potatoes was initiated at the Chicago Mercantile Exchange in 1931. Futures trading in potatoes on the CME subsided in the 1960's as the

exchange researched means of improving its contract. After an intensive study, and at the requests from many within the industry, the CME decided to proceed with a futures contract specifically for Idaho russet Burbank potatoes. The contract was opened on June 12, 1968. In the first full year of trading on the CME more than 80,000 Idaho potato futures contracts were traded providing a liquid market for growers, dealers, processors, and speculators. This high level of activity surpassed the trading volume in the first full years of trading in pork bellies and cattle.

One of the responsibilities of an exchange is to keep its contract viable and commensurate with current needs and trade practices. Thus it has been the policy at the CME to constantly adjust the various contracts to fit rapidly changing technical conditions in agribusiness. Contracts for Idaho potatoes have been no exception. For example, in the contract year ending in May 1971, the point of delivery was the buyer's option. He could choose—

- (a) On track at the Chicago Wood Street terminal;
- (b) Chicago and North Western Railway yards in Chicago;
- (c) Kansas City, Mo., or
- (d) On track FOB Idaho, with an allowance made to the buyer of a difference of freight charges between the point of delivery and Chicago.

It was thought that these delivery points are the same receiving and distributing centers that are used daily in the normal flow of Idaho potatoes from growing points to consuming areas.

However, when we were advised that many producers who hedged potatoes felt that they could use the market more effectively if their potatoes could be delivered in Idaho with an allowance made to the buyer of freight charges published and recognized by the Interstate Commerce Commission between the point of delivery and Chicago, we changed the contract last year so that the current contracts call for such delivery at Pocatello, Idaho, or in Nampa, Idaho.

This new contract should be given a chance. We feel it is a vast improvement over the previous one, and will meet the needs of Idaho producers.

Still, we are willing to examine, investigate, and study all new proposals—for it is our aim to serve the needs of this industry.

Towards this goal, we have and will continue to work closely with every segment of the potato industry, its various farm groups, and leaders.

Towards this goal and the identical goal for every agricultural industry we serve, the CME in December of 1970 organized an advisory council made up of eminently qualified experts representing a board spectrum of agriculture and academia. Allow me to recite their names:

Dean R. L. Kohls, School of Agriculture, Purdue University.

Charles B. Shuman, former president, American Farm Bureau Federation.

Phillip Alampi, chairman, pricing committee and secretary of agriculture, State of New Jersey.

Michael Sumichrast, chief economist, National Association of Home Builders.

Lane Palmer, editor, Farm Journal.

This council, we know, will keep us advised and act as liaison with all segments of agriculture and thereby promote better understanding between our exchange and the industries we wish to service, and particularly, give us insight for better and more viable contract specifications.

Allow me to read the following letter received recently by Mr. Everette B. Harris, our president, from Mr. Nyal Rydalch of the Idaho Farm Bureau Federation, which indicates farmer attitudes on this very point:

DEAR MR. HARRIS: We appreciate the changes made last year in the Potato Futures contracts. Some factions of the potato industry are still questioning the value of Potato Futures (see enclosure from the Idaho Farm Bureau News, October 1971 issue).

May we suggest that you give consideration to yet another change. If the Futures contract could be based on carlots of mixed packages that would reflect the majority portion of potato shipments (see enclosed schedule of shipments). This would better reflect the supply-demand factor of potato marketing.

The Potato Futures market has a vital function for agriculture, and when used as a hedge can be a definite advantage for a producer, but they must reflect supply and demand. We feel this recommended change would bring about added trading in the Futures market.

Sincerely,

NYAL RYDALCH,
*Assistant Executive Vice President,
Director of Commodities.*

Our exchange has, in fact, promised to look into this new possibility.

You have probably heard some say that a futures market disrupts the natural flow of marketing. How inconsistent that statement is with the facts. Experience shows that less than 5 percent of all commodity futures transactions result in actual delivery. The exchange is not an alternate or substitute for normal marketing channels, but rather serves as a marketing aid to the industry. The seller in the futures market should deliver only after he estimates his cost of product, transportation, handling, and inspection, and then calculates his net cost based on the futures price he has contracted for. The usual course of action is to sell the potatoes through normal marketing channels and at the same time liquidate the position held in the futures market.

You have probably heard some say that futures markets distort true price structures. How unjustified that statement is under the scrutiny of simple logic and basic facts.

We challenge anyone to deny the basic premise that the most honest method of determining fair market value is still the price a seller will sell and the price a buyer will pay in an open and competitive market.

Futures trading on the CME is a classic example of a free market system in action with buyers and sellers bidding by open outcry, with instant access to a multitude of public and industry participants who can voice their opinion at a moments' notice.

Certainly the exchange operates under strict rules and regulations as promulgated by the CEA and the exchange itself.

(a) Minimum customer margins and minimum maintenance margins are established by the CME to insure performance by buyers and sellers.

(b) The exchange limits the number of contracts that a speculator can control in total or in one day's trading. Hedging transactions are exempted from this rule.

(c) Daily price fluctuations are limited to 35 cents per hundred pounds upward or downward from the previous day's settling price except on the last day of trading in every delivery month, when limits are 50 cents per hundred pounds. These limits of price fluctuations prevent extreme and drastic price movements which are not characteristic of the commodity in its normal marketing flow.

(d) The Exchange Audits and Investigations Department, staffed by highly qualified people, constantly monitors members' activities to insure compliance with exchange rules and financial requirements.

But these rules and regulations are necessary and serve to insure an orderly market rather than determine price of the commodity.

The ultimate determinant of price remains the supply and demand of the product. When a set of circumstances causes a distortion of this true value, it is usually quickly corrected by the normal forces of the market place. But even when such distortions occur in rare instances, they fall short from disproving the paramount truth that a free market is the truest barometer of value.

The foregoing fundamental functions which are inherent in every futures market, make it abundantly clear that their existence is an overwhelming asset to this Nation's agriculture. Their overall beneficial effect far outweighs any singular instances of misuse.

Allow me to quote from a message delivered to the Chicago Mercantile Exchange in 1969 on the occasion of our 50th anniversary by President Richard M. Nixon:

By fostering sound practices in futures trading and by encouraging active trade in an increasing number of commodities, you continue to contribute meaningfully to the growth and wellbeing of American private enterprise and of the national economy.

Mr. Nixon echoed the sentiment of many Presidents, Senators, Congressmen, economists and agricultural experts. To consider today that doing away with a futures market in potatoes will solve this industry's problem would indeed be an irreparable error and unjustified by the facts. It did not help the onion grower to kill futures trading; it will not help the grower of Irish potatoes.

I beseech you then, not on legal grounds—although the constitutionality of such legislation as the proposed prohibition has never been fully tested. I beseech you on the basis of logical examination and factual experience. The abolishment of a futures market in potatoes will not solve anything—on the contrary, it will do much harm.

Let us instead, as President Johnson said, "Let us reason together." Let us improve our contracts, let us regulate these markets, let us inform all elements of the trade more fully, but let us stop short of abolishing this proven marketing tool which serves so many good purposes.

In short—and to be trite—let's don't throw out the baby with the bath water. Thank you.

(The attachment to Mr. Melamed's statement follows:)

ON THE COMMODITY SCENE

We are now moving into the harvest season for potatoes and we may have a good year for Idaho.

Those who have dug are reporting fair quality. Size may not be as large as last year, and some areas are reporting small potatoes.

The high temperatures this summer caused a high rate of evaporation. Those farms not adjusting the rotation and amount of moisture may find some rough potatoes.

Overall national production being down, we have prospects of a good marketing year for Idaho.

POTATO FUTURES

As great deal of discussion has been held concerning potato futures as to retaining or removing them from the mercantile exchange.

Some thoughts that should be considered are:

1. Removal could eliminate the name of Idaho potatoes on the exchange and replace Western Russets on the board as a trade item. Idaho would then lose this source of publicity in connection with our being the leader in Russet potatoes.

2. A Futures contract is about the only one available as an alternate to a processor contract in securing a price for a producer's crop at a given time.

3. The futures contract for Idaho potatoes has been changed this year to where it is much more satisfactory as a hedge for the producer. Other changes can be made to provide a wider area of sale and thus provide the Idaho potato producer with another source or market to secure a profit for his crop.

4. A few years ago, onions were removed from the board of trade, and many of the reasons given for this action are the same as those now relating to potatoes.

Records do not show, as far as I can determine, any advantage in the price of onion sales or effects on sales since that action was taken.

If used as a true hedge, futures on potatoes can be a definite advantage for the producer. If we get to speculating and gambling, we can lose our shirt or make a million. Give this some thought before you say, "Take 'em off the board."

Mr. FOLEY. Thank you, Mr. Melamed. If you would like to remain where you are, we shall call the next several witnesses and question you as a group.

The next witness is Dr. Thomas Hieronymus, professor of agricultural economics of the University of Illinois, Urbana, Ill.

STATEMENT OF T. A. HIERONYMUS, PROFESSOR OF AGRICULTURAL ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA, ILL.

Mr. HIERONYMUS. Mr. Chairman, gentlemen, my name is T. A. Hieronymus. I am a professor of agricultural economics at the University of Illinois. I have been employed there since 1946. Much of my time has been spent in teaching and research in commodity futures trading. My writings on the subject are fairly voluminous. I appear here today in opposition to H.R. 7287, a bill to ban futures trading in Maine potatoes.

The central point to which I want to go is that there is no case to be made in opposition to potato futures trading that is any different

than can be made against futures trading in any or all other commodities and that I suspect that much of the hue and cry against potato futures trading is related to unsatisfactory speculation on the part of growers and shippers. The market has been a useful pricing tool for growers and shippers who have used it properly in connection with their business. I suspect that their speculative experiences in case potatoes and potato futures have been less satisfactory and that here lies some of the root of disgruntlement.

I have been this way before. I did quite a lot of work on the onion futures market before appearing before this committee in the spring of 1957 in opposition to a bill to ban futures trading in onions. I repeated the process before appearing before the Senate Committee on Agriculture and Forestry in 1958. I subsequently spent quite a lot of time assisting with legal proceedings to test the constitutionality of the onion futures ban. The onion futures market was an institution that contributed to marketing and pricing efficiency and benefited onion growers.

Prior to the trading of onion futures in volume, dealers bought onions at harvest at substantially reduced prices—at prices low enough to make them willing to assume the attendant risks of ownership. Prices regularly increased during the storage season by more than the cost of storage to the disadvantage of the growers. During the period of active futures trading the dealers hedged and speculators bid prices high enough at harvest that the seasonal increases in price above the cost of storage disappeared. Speculators, as is true in other markets, assumed the risks of price changes at no cost to the market and to the benefit of the growers. In the years immediately following the demise of futures trading, the dealers went back to buying at reduced harvest prices. They could do so because the competition of speculators was no longer present. They needed to do so because they could not afford to carry the risks of ownership at higher prices.

The banning of futures trading in onions clearly worked to the disadvantage of the growers. It did not greatly disadvantage the dealers who simply went back to their old ways. One suspects, more profitable old ways. The Chicago Mercantile Exchange was temporarily disadvantaged but soon developed in new directions and has since expanded and prospered almost sensationally. The onion speculators went elsewhere and traded in other commodities. It was no big deal except to marketing efficiency and those people whose businesses were directly related to the actual onion production and trade.

In the year of the greatest debacle and the generation of the greatest negative hue and cry the price of onions was quite high in the fall during harvest. Large hedges were placed in the market and hedgers were net short by a wide margin. Behind these hedges were large sales of actual onions by growers, some for spot delivery and some in storage for deferred delivery. Opposite the hedgers were the speculators who were net long by a wide margin. The price of onion futures declined drastically, held steady for a time, and finally completely collapsed at the end of the season when the new crop in Texas came in early. The growers who sold early received excellent prices.

Those whose market judgment told them to hold did not do so well. They were understandably frustrated and lashed out at the most convenient whipping boy, the futures market. The simple fact was that there were too many onions and the price went where it inevitably had to. The speculators, as a group, lost heavily. When I looked at who the speculators were as the occupational identity of traders was revealed in a market survey made by the Commodity Exchange Authority, I found the single largest occupational group of long speculators were onion growers. Onion growers as such sold at advantageous prices. Onion growers as speculators fared poorly indeed. I strongly suspected then and continue to think now that much of the opposition to onion futures trading arose out of unhappy speculative experience on the part of onion growers.

In this connection I note with interest from the CEA market survey of November 27, 1970, that there were 247 members of the potato industry who were identified as speculators who were net long by a substantial margin and that there were 163 members of the potato industry identified as hedgers who were net short by a comparable margin. I note comparable patterns in the surveys made on October 29, 1965, October 31, 1963, and on October 27, 1961. It is typical of every survey result that I have looked at, for every commodity. The occupational identity of speculators revealed a lot of producers.

The economic difficulties of Maine potato producers have been well documented in these hearings. They arise out of increased potato production in other regions and the highly inelastic demand for potatoes. They are lamentable but they can in no way be ascribed to the existence of a potato futures market or to speculation in potato prices. Nor would they be alleviated if futures trading were to be eliminated.

It appears to me that the long campaign against futures trading in potatoes is the result of four things: (1) general frustration arising out of an unfavorable economic position; (2) frustration resulting from having timed the sales of cash potatoes poorly, that is, having speculated poorly in cash potatoes; (3) unhappy speculative experiences in futures—losing speculators are notorious alibiers—and misuse of futures in connection with growing and shipping operations; and (4) misunderstanding of the operation of futures markets.

I do not doubt the sincerity of the people who are testifying in support of the bill nor do I suggest that any of them are losing speculators in futures. Rather, I am looking for the root of the support. The kind of thing that I am describing is like that which I have observed in many years of teaching the role and use of futures markets to farmers, interior merchants, and bankers. I am pleased to report that a great deal of progress has been made in developing an understanding of futures markets in the agribusiness community of the midwest. Each year more farmers and marketing firms make effective use of futures markets as management tools. And each year I hear less and less blaming of futures trading for price problems. In 25 years, I have seen the attitude of the agricultural community toward futures trading change from predominantly negative to predominantly positive.

I think that, as in grains and livestock, an active and expanded futures market in potatoes can be a useful instrument in restructuring the potato industry to a more profitable level. That the potato futures market is a useful forward pricing and hedging medium for growers, shippers, merchants, and processors has been well documented in these hearings and I will not restate the case.

I particularly commend the statement of Mr. Caldwell of the CEA. The point that I would like to make is that speculative markets, if used extensively by the industry concerned, particularly producers, are useful in readjusting production to profitable levels.

Speculators are in the business of anticipating events to come and discounting their impacts into forward prices. They put money at hazard in guaranteeing those forward prices. If producers contract their services forward when futures prices are at profitable levels and decrease production when futures prices are not at profitable levels, production is adjusted to amounts that speculators, in the aggregate, judge to be appropriate. If the speculators are right they make money, and if they are wrong they lose. The profit-loss results of speculation tend to improve its quality and, thus, its effectiveness in guiding production to appropriate levels.

Producers of commodities that are actively traded on futures markets need never produce at unprofitable prices. As futures prices are at profitable levels they can contract their services forward and as they are at unprofitable levels they can refuse to produce until prices rise appropriately. If they go ahead and produce when forward prices are below profitable levels in the hope that prices will rise, they have only themselves to blame if they lose money.

My suggestion to potato growers is, rather than blame futures markets for their competitive problems, that they make effective use of the markets.

I thank you very much for the opportunity to be heard.

Mr. FOLEY. Thank you very much, Dr. Hieronymus.

I also would like to ask you to remain at the witness table.

The next witness is Dr. Mark J. Powers, vice president, Chicago Mercantile Exchange.

STATEMENT OF MARK J. POWERS, VICE PRESIDENT, CHICAGO MERCANTILE EXCHANGE

Mr. POWERS. Thank you, Mr. Chairman.

My name is Mark J. Powers. I reside in Lake Bluff, Ill. I am and have been since late December 1969, a vice president of the Chicago Mercantile Exchange. Prior to that time, I was associate professor of economics in South Dakota State University, Brookings, S. Dak.

I am grateful for this opportunity to appear before you on behalf of the Chicago Mercantile Exchange in opposition to the enactment of H.R. 7287 which proposes to prohibit futures trading in Irish potatoes.

The issue before us today is far more than a consideration of whether futures trading in Irish potatoes ought to be continued or not. Indeed, it is a question of whether or not producers, handlers,

and processors are to be provided fewer or more alternatives in marketing their products—whether they are to be provided a competitive means of discovering price and a wider or narrower latitude in timing their purchases and sales. The issue strikes at the heart of the free enterprise system and has implications for all of agriculture. Indeed, for our entire society.

Prof. John D. Black, one of the most respected Harvard economists of this century, or any other, for that matter, noted some years ago that futures trading is as much a social invention as property rights, trial by jury, constitutional government, and commercial banks. Futures trading, as did these other elements, evolved as a natural part of our society as people demanded improvements in their system of property exchange.

One of the fundamental precepts of our society is that it is Government's role to improve the functioning of the exchange system by fostering a financial system that enables resources to be used most productively. Futures trading is one of the financial institutions a well developed exchange economy needs for efficient allocation of its resources.

The marketing and exchange systems for such perishable agricultural commodities as potatoes, live cattle, live hogs, eggs, and others all proceeded through the evolutionary stages of gift giving, barter, spot markets, contract markets, and finally to the ultimate method of exchange, futures markets. It would be a serious mistake and a step backward to interfere in this natural, evolutionary process and remove this institution from the marketing system for potatoes.

Others, in their testimony opposing this bill, have covered some of the basic economic arguments in favor of futures trading. It is my intent, in the few minutes I have, to attempt to put some aspects of this issue in its proper perspective so that it may be better understood and to discuss some of the charges made by the supporters of this bill. The market system at least deserves to be understood before it is condemned, and presently it is being condemned without proper understanding.

Let me turn first to some misconceptions about hedging.

Much of the past testimony of proponents of this bill rests on an oversimplified and misunderstood concept of hedging; namely that hedging is used solely as a risk avoidance procedure. That concept of hedging is simply not descriptive of the ways in which industry people utilize futures markets in conjunction with their businesses.

In reality, handlers of a commodity use the markets as a legitimate business management tool in a diverse number of ways, depending on the special circumstances of their lines of business. For this reason, the traditional textbook concept of hedging is misleading. Dr. Holbrook Working, noted agricultural economist, after careful and extensive observation of the business use of the futures market by handlers of commodities, defined and identified a number of legitimate business uses of the market. Although I shall not go into a lengthy discourse on the different types of hedges identified by Dr. Working, I believe his concept to be of such importance to a correct understanding of hedging that I shall briefly summarize his description of the multipurpose uses of hedging.

First, he described the carrying-charge hedge. This is undertaken for purposes of obtaining at least partial payment for the cost of storing products, as in the case of a grain-elevator operator who buys corn in November with the intent of storing it until the following summer.

(b) The operational hedge: This involves the placing and lifting of hedges over short time periods as temporary substitutes for merchandising transactions. It is widely used in the milling industry.

(c) Anticipatory hedge: This involves the purchase or sale of futures in anticipation of a formal merchandising commitment to be made later. The operator carries an open position in the futures market for a time without an offsetting cash commitment.

(d) The selective hedge: This characterizes the practice of hedging or the basis of price expectations. The motivation is not so much to avoid risk as such, but to avoid major losses. Thus, a firm would hedge incompletely and would put on short hedges only when a price decline is expected and would not carry short hedges at all when a price increase is expected.

(e) The risk avoidance of insurance hedge: This involves the carrying of equal and opposite positions in the same commodity in the futures market and the cash market. It is the typical textbook example.

Dr. Working's description of the use of the futures market as a valuable management tool makes clear, I believe, the flexibility the futures market provides an entire industry in the selection of alternative strategies for timing its purchases and sales, and the timing of the pricing of its products.

INCORRECT ARGUMENTS MADE BY PREVIOUS WITNESSES

Among the points made by testimony presented to this committee on January 20, 1972, by Mr. Chipman C. Bull, were the following:

Price movements are more erratic as futures activity increases: and

Trading on the potato futures exchange is largely between and influenced by persons having no connection with or knowledge of the actual product or its true value.

Let's examine these two propositions for their validity.

Implied in the above proposition is the argument that in the absence of a futures market, prices are "determined by supply and demand" in some automatic way, independently of human judgments, and that existence of a futures market interferes with the "invisible hand." In point of fact, the price of any commodity in a free and competitive market, whether futures or cash, whether it is for automobiles, or lemons, or potatoes, is determined only indirectly by physical supply and demand for final use. Its direct determinants at any time are human judgments influenced by more or less accurate knowledge of supply and demand conditions. If prices formed initially on such judgments are wrong, the basic facts of supply and demand will presently change those judgments. But the new price that results still will be determined directly by human judgments based on currently available information. This is true whether it's a futures

price or a spot price. Hence, the price of a commodity is subject to essentially the same influences whether a futures market exists or not. The futures market is merely the thermometer which registers the impact of these influences.

Whether existence of a futures market tends to make prices fluctuate more or less than they would otherwise, can be determined conclusively only by comparative studies of price fluctuations under the two conditions. Such studies have been done in the past and not a single study supports the contention of the proponents of this bill. For example, I found in a study, while I was still at South Dakota State prior to my present position, in a study of live cattle prices, a commodity much more perishable than potatoes that the random fluctuations that is, those fluctuations that could not be attributable to fundamental economic conditions, were reduced dramatically with the introduction of a futures market. Similar results were also found in a study of pork belly prices. (These studies are reported in the June 1970 issue of the *American Economic Review*.) Studies on the onion market, as reported to you by other witnesses, have yielded similar results.

Let us turn to the second proposition. This has been touched on by the previous witness, Mr. Hieronymus: Who are the participants in Maine potato futures trading and are they knowledgeable about the actual product and its true value?

Dr. Aaron Johnson of the University of Wisconsin recently completed a study, which will be published in a forthcoming publication of the Stanford Food Research Institute, in which he classified the participants of the futures market for Maine potato futures on the basis of their occupation. Evidence was presented which showed that the Maine potato futures market is basically utilized by persons connected with the potato industry in Maine or as a minimum, by persons who are quite likely to be familiar with the production and marketing conditions, as they related to the process of price determination. Dr. Johnson concluded from his study, which covered the years 1955 to 1965:

Industry traders participated to a considerable extent in future trading. For the ten year period, handlers of potatoes accounted for 49 percent of the long side of the market, and 70 percent of the short side, leaving 51 percent of the long side and 30 percent of the short side for nonindustry traders. Considerable year-to-year variation has existed, however. For example, in 1955, 1956, and 1958 industry traders held over 60 percent of the long side and over 50 percent in the years 1960, 1961, and 1963. Thus, in six of the ten years, industry traders held in excess of one half of the long side of the market. The lowest held by this group was 38 percent in 1965. On the short side, in two years industry held over 80 percent of the open interest and in four years this group held over 70 percent. The lowest proportion of the short side held by industry traders was 62 percent in 1965.

If one were willing to accept the argument that persons in the potato industry are not "outstanding" in the sense that they are unaware of basic supply and demand conditions, these results clearly suggest that the role of outsiders in the price making process may be somewhat minimal. If one were willing to go a step further, and argue that professional speculators (as classified by the Commodity Exchange Authority) are also knowledgeable concerning basic supply and demand conditions in the industry, a presumption which seems somewhat reasonable since their livelihood depends upon making proper price forecasts, then the result is that about 55 percent of the long

side of the open interest is held by knowledgeable traders and about 75 percent on the short side is held by knowledgeable traders.

A study recently completed—and Dr. Hieronymus touched on this—by the U.S. Department of Agriculture and not included in Johnson's data, showed that in the fall of 1970, when their data was collected, approximately 34 percent of all the long and 30 percent of all the short open contracts were held by members of the potato industry.

These statistics clearly raise a serious question concerning the validity of the charge that prices on futures markets are determined primarily by outsiders who know nothing of basic supply and demand conditions.

INDUSTRY PARTICIPATION NEEDED FOR EXISTENCE OF A VIABLE MARKET

This participation in the potato futures markets by industry people is of key importance for the existence of the market. Studies conducted by a number of economists, including myself, indicate that speculators tend to be attracted to markets in which there is a large amount of hedging, and conversely tend to leave markets when hedgers desert them. Dr. Holbrook Working concluded from his comparison of 11 different commodities that there is a very close relationship between the total open speculative contracts and the total open hedge contracts. He concluded that it is hedgers who attract the speculators to the market.

Dr. Hogert Gray of the Stanford Food Research Institute studied the relationship between the three principal wheat futures markets and found that as hedgers were attracted to the market, speculators were attracted to it also. In some cases, though, not enough speculation was attracted. Hence, the hedging load for the market became burdensome, and of course, this increases the cost of hedging. My own study of the pork belly futures market, as reported in the November 1967 issue of the *Journal of Farm Economics* bears out the relationship by Gray and Working. That is, as hedgers are attracted to a market, speculators are drawn to use it, and conversely, as hedgers leave the market, speculators tend to leave it also.

The very first prerequisite for a successful futures market is that it be attractive to hedging use. The second is that a market must attract speculation. Hence, if this market were not performing a useful economic function for the potato industry, it would have died a natural death long ago, as industry people would have refused to participate in it, and the statistics I have just quoted will point out that they definitely have used it.

Let me turn my attention briefly to a most important aspect of this issue before us. It relates to farmer bargaining. All farmers are going through a frustrating period in pricing their products.

The Governor earlier pointed out some of the problems that they are having throughout the State of Maine. Markets in which cash merchandising transactions are executed in an open competitive bargaining atmosphere have virtually disappeared. And where they do exist only a tiny fraction of all trading is conducted on them. Because of the thinness of these markets, the representativeness of the

price quotes generated are open to question. This is particularly true in the potato industry.

Most producers still sell locally through private negotiation with only limited local information about market conditions. Large firms, however, with extensive information sources about the total market, buy nationally, and have a substantial competitive advantage. The presence of a futures market with its open and highly competitive bargaining aids farmers in their bargaining efforts to obtain a better price. In this sense, the usefulness of the market to the general economy and to the producers in particular, is much greater than that of merely hedging.

SUMMARY

To summarize:

(a) The issue before us today strikes at the heart of the capitalist system as futures trading is an integral part of our financial and property exchange system.

(b) Past testimony suggests a confusion on the part of proponents of this bill about the concept of hedging. Hedging is engaged in for a diverse number of reasons other than strictly risk avoidance of insurance. Properly used, it is a valuable management tool, useful to businessmen in a variety of circumstances.

(c) There is no evidence available and none was supplied by the proponents of this bill that support the contention that futures trading increases price fluctuations in the cash market. Evidence to the contrary was supplied.

(d) The charge that the participants in the futures market for Maine potatoes are largely "outsiders" is false. Evidence was provided to refute the charge. Indeed, evidence was also mentioned that showed that if such industry participation did not occur, the market would die a natural death, and these hearings wouldn't be necessary.

(e) The existence of the futures markets for potatoes is advantageous to the marketing efforts of growers, processors, and other handlers of the commodity. It aids all of them in providing an additional alternative in the marketing of their potatoes. It provides a competitive means for discovering price. It provides a great deal of flexibility in the timing of purchases and sales and it provides an important source of information for the marketing of the product, thereby enhancing its use to the general economy.

CONCLUSION

Although historically it's probably true that many members of exchanges did not recognize the obligations they owed the public and the industries they served, such is not generally the case today. Certainly it is not true at the Chicago Mercantile Exchange, since that exchange has learned that futures markets cannot exist in the long run unless they are useful to the handlers of the actual commodity.

I'm sure that if members of the exchanges and the proponents of this bill would sit and "reason together," they would find that not only can futures markets and potatoes "peacefully coexist," but that we can help each other. Students of biology learn that there are three distinct circumstances within which different species exist together.

There is the parasitic relationship, as when the mistletoe attaches itself to the oak and lives by exploiting its host. There is the competitive relationship, as when corn and wheat compete with each other for moisture and sunlight. There is the symbiotic relationship, by which two species help each other as do the bee and the clover. Failure to understand these relationships has led man to drive to the point of extinction certain species which were wrongly felt to be harmful. We discover too late that relationships thought to be parasitic are not so in fact, and that the number of symbiotic relationships is far greater than we thought to be true. Let's not make the mistake in this instance, for futures markets and the U.S. potato industry do have a natural symbiotic relationship.

Thank you.

Mr. FOLEY. Thank you very much, Dr. Powers. If you would like to remain, perhaps they will make room for you.

The next witness to be heard will be Dr. Roger W. Gray, Food Research Institute, Stanford University.

Dr. Gray.

STATEMENT OF ROGER W. GRAY, FOOD RESEARCH INSTITUTE, STANFORD UNIVERSITY

Mr. GRAY. Thank you, Mr. Chairman, members of the committee.

I am Roger Gray, a professor and economist in the Food Research Institute at Stanford University, appearing here in behalf of the New York Mercantile Exchange. For the past 18 years my teaching and research at Stanford have focused upon the organized commodity futures markets. I have published numerous studies of various futures markets here and abroad. I regularly teach graduate and undergraduate courses in the economics of futures markets, and have frequently consulted with various exchanges as well as some of their member firms on problems pertaining to futures markets. I have also enjoyed the privilege of testifying before congressional committees on bills pertaining to futures market regulation, and twice before have testified on bills designed to prohibit futures trading in potatoes.

Today marks my fourth appearance before this subcommittee. I welcome and appreciate this opportunity to present further evidence of the performance of the New York potato futures market.

I have examined the performance of numerous futures markets in considerable depth, having published studies, among others, pertaining to the futures markets for wheat (Chicago, Kansas City, and Minneapolis), oats, barley, coffee, onions, corn, soybeans, millfeeds, wool (Australia), orange juice, propane, and plywood. I am conversant with the operation and performance of still other futures markets, having for example presented expert testimony in litigation involving vegetable oil futures and other litigation involving silver futures. My abiding interest in potato marketing problems is reflected in four major studies spanning almost two decades. My doctoral dissertation at the University of Minnesota (1952) which won a national award from the American Association of Agricultural Economics and was published by the University of Minnesota, was an

examination of the potato marketing problem and of the effects of the price support program. This study adduced at that time the need for a forward pricing mechanism as the most critical ingredient in the rationalization and improvement of the potato marketing system. A second study published in 1964 examined the performance of the potato futures market through 1962, and refuted the arguments which had been contrived by its opponents. Much of this study had been introduced into the hearings record in 1963.

A third study, published a year ago, jointly authored with Professor Tomek of Cornell, contrasted the potato futures market with those for corn and soybeans, and demonstrated that the potato futures market has provided much stronger incentive and better opportunity for hedging by farmers, through the reduction in price and income variability which it has afforded them. My most recent study, now in press, has been reproduced from the typescript and made available as a part of the record of these proceedings. Since it comprises more than 50 pages exclusive of supplementary materials, I have sought in the remainder of this brief statement to summarize the salient findings of that study.

1. Hedging usage of the futures market by growers and dealers, chiefly in Maine, has continued to expand since the 1963 hearings. The growth patterns established by 1962 and recorded in the 1963 hearings had continued unabated. The argument made at that time by opponents of the market, that its hedging capacity was too limited to benefit the entire Maine industry, has been progressively refuted. The price pressures which opponents envisioned as a consequence of expanded hedging use have not materialized—nor was there ever good reason, given our knowledge of other futures markets, to suppose that such price pressures would materialize.

2. As more and more hedging occurs in futures, and as the price quotations in futures are increasingly consulted by growers, further inroads have been made upon the erratic price and production record of the past. Greater stability from year to year in planted acreage is clearly evident, particularly in Maine.

3. Futures price quotations at planting time have been remarkably stable from year to year, and have afforded an opportunity for growers to establish forward prices at reasonable and stable levels. The forward price has been reasonable in the sense that it has averaged at least as high as the later cash price, while at the same time it has been far more stable than the later cash price.

4. Futures price quotations at harvest time have also been more stable than subsequent cash prices, and have been reasonable in that they have averaged at least as high as subsequent cash prices. Thus, the storage of potatoes after harvest has been facilitated for those who have chosen to hedge their stored potatoes.

5. In so far as published evidence allows any inference regarding the success with which hedgers have used the market, it is clear that in the aggregate, they have made good decisions. They have hedged more in years when cash prices subsequently did decline; and within seasons they have hedged at higher prices than they would have obtained from a cash sale at harvest time.

6. High futures prices at harvest time have been associated with still higher prices later; low futures prices with still lower subsequent prices. Thus, the futures market has undoubtedly attenuated the within season price movements that might otherwise have occurred.

7. Estimates of the costs of hedging must include the explicit and easily measurable costs of commissions and interest on margin deposits, as well as the implicit and difficult-to-measure execution costs. A comparison is drawn on both counts with soybeans. Potato prices are inherently more volatile and the market is smaller, hence one expects both costs to be higher in the potato market. My estimates are that the explicit costs are about four times as high for potatoes, and the implicit costs may likewise be about four times as high, though this is probably the extreme. (These comparisons are for a cwt. of potatoes vs. a bushel of soybeans, and somewhat overstate the costs for potatoes since a cwt. of potatoes averaged higher in price than a bushel of soybeans.)

Considering the much greater volatility of potato prices, plus the fact that hedgers have tended to place timely hedges in potatoes, these cost estimates appear quite reasonable. If in fact the total cost of hedging potatoes has averaged 15 cents per cwt. as my estimates suggest, this has been a very worthwhile cost for the potato hedger to undertake.

8. The potato futures market is at least as carefully regulated as any other market coming under the purview of the Commodity Exchange Authority. This can be inferred from the fact that the CEA has conducted more special surveys and published more reports on potatoes than on any other market. It is inconceivable to me that there has been any malfunctioning of this market for which remedies do not exist.

These considered conclusions are documented in some detail in the study to which I referred, and which I earnestly recommend that you gentlemen and your staff people read. I would even hope that those present who have advocated this legislation in these hearings would read this study. Meanwhile I should like to comment briefly upon the testimony of the proponents of H.R. 7287, which I had opportunity to read yesterday, that is, the January 20 and 21 testimony. I disagree with most of that testimony, but lacking time to discuss it in detail, will here confine my comments to a few of its major and recurring themes.

Let me first direct your attention to the table appearing on page 91 of the hearings record, in which are shown the results of various polls of grower attitudes toward the futures market, which have formed the basis for the repeated assertion that the great majority of growers oppose the market. I wish to suggest an alternative, more cogent and invigorating interpretation of these numbers, without here questioning their validity. What they show can be very instructive although it is not very surprising. Compare the results of the poll taken in 1962—the one immediately prior to the last hearings in which several of you and I participated—with the results of the most recent poll taken in 1970. Over that 8-year span, the number of growers polled declined by one-third, from 2,560 to 1,708; whereas the number favor-

ing the futures market more than doubled—from 117 to 244. There are several inferences which can be safely drawn.

First, the number of growers declined as farm consolidation occurred and smaller farmers dropped out—in continuation of a structural shift that has been occurring in U.S. farming generally and in potato growing most dramatically. This is inexorable, it is desirable in terms of economic efficiency, and it still has a ways to go.

Second, the dropouts were clearly not the users and supporters of the futures market, whose numbers more than doubled during the same period. I am quite aware of the testimony on page 132 that 11 out of 22 of the 1962 supporters of futures trading have since gone out of business. But this selective sample cannot overcome the aggregate figures—a one-third decline in grower numbers coupled with a doubling in futures market supporters.

Third, the most important, these trends, if not halted by ill-advised legislation, will continue. No one knows just what the optimum number and size of potato farms will be in the next few years, but one very simple calculation is suggestive of the trend which is underway. The next one-third reduction in grower numbers and doubling of futures supporters, from the 1970 base, would result in 1,140 growers, 530 of whom would be supporters of the futures markets. I am not so foolish as to extrapolate all trends and say “this is what will happen.”

Nor am I so foolish as to ignore basic, underlying, persistent trends, such as the one reflected in census figures quoted in my study, showing that three-fifths of U.S. potato production came from the top 67,000 producers in 1934 and from the top 2,200 in 1964 (and the 1969 census will show a still lower number). Meanwhile, we observe in this industry the same relationship observable elsewhere in the economy, and observable also in other segments having access to futures markets. The viable firms—the survivors of inexorable progress—are those which adapt and take advantage of the marketing tools at their disposal. Many years ago, Mr. Charles Bell, founder and chairman of General Mills, observed that the flour mills which had not hedged in futures had fallen by the wayside, while those that adopted hedging programs survived. The same observation is valid for other agricultural industries—and the evidence is clear, as I stated earlier, that the segment of the Maine potato industry which has hedged has done so successfully. One witness told you in the earlier sessions of these hearings that he knows for a fact that the farmers who have never used futures are better off than those who have. The facts belie his knowledge.

There are other arguments from the proponents of this bill which are contradictory. You cannot have it both ways, for example, in the repeated assertion the one hand that futures have not been available at cost-of-production levels. It could very well be that hedge sales have covered production costs for the larger, more efficient producer who uses futures; but not for the smaller less efficient producer who is thereby the overproducer. Nor can you have it that futures stimulate overproduction in Maine at the same time that the western grower not having used futures to any extent, has increased his production much more than the Maine grower has. Nor can you have it

that speculation, shown by all regular reports and full market surveys to have been predominantly long in futures, is price-depressing. In each of these three common themes, the proponents simply contradict themselves.

Nor do the proponents alter the facts by reiterating assertions which are contrary to fact and have been rebutted before. In the 1963 hearings we heard both the perishability argument and the contention that futures caused the Maine grower to hold his crop in storage and suffer late season losses. Both arguments were refuted in my 1963 testimony, both have been refuted in Mr. Watts' testimony which you will be hearing soon and both are refuted in the study which I have submitted and commend again to your perusal. A futures market is more important, especially to the producer, for a crop without a carryover than a crop with a carryover. Growers who have stored their crop have done better, on average, than those who sold early—and growers who have hedged their stored potatoes in futures have done better than those who stored unhedged potatoes.

Finally, you were also during the course of the January hearings, exposed to some folklore which tells you that all wisdom and common sense reside in our yeomanry, and that professors and bureaucrats may be clever people, but they are not to be trusted because they lack wisdom and common sense.

As one born and raised on a farm I sometimes am tempted to accept the first piece of folklore. As one who has spent his adult life hobnobbing with professors and bureaucrats, I am sometimes tempted to accept their second bit of folklore. But if I have acquired any common sense in my double-exposure of more than half a century, it tells me that there is no wisdom and no sense in attacking scapegoats. Yet this is what the proponents of H.R. 7287 are doing.

I thank you kindly for giving me this opportunity to be heard in this matter.

Mr. FOLEY. Thank you very much, Dr. Gray. I appreciate your testimony.

We shall ask you also to remain, if you can, and, following the testimony of Mr. Watts, we shall question you altogether.

We do have a rollcall vote in progress in the House at this time. The subcommittee has just had a little consultation here and we would not, Mr. Watts, want to have your testimony interrupted with members coming and going. I think what we will do at this juncture is to recess until 1 o'clock this afternoon. At that time, we can take up Mr. Watts' testimony. Normally the subcommittee would recess until 2 o'clock, so this way, we shall actually pick up about a half hour of additional time.

Will any of the witnesses who are to testify find it difficult to return at one?

[No response.]

Mr. FOLEY. Mr. Watts, will you be able to return?

Mr. WATTS. I shall be here.

Mr. FOLEY. Then we are recessed until 1 p.m.

(Whereupon at 11:35 a.m., the hearing recessed until 1 p.m. on the same day.)

AFTERNOON SESSION

Mr. FOLEY. The subcommittee will come to order.

At this time, we will be happy to hear from Mr. Llewellyn Watts, Jr., chairman of the board of the New York Mercantile Exchange.

Mr. WATTS. Thank you, Mr. Chairman, members of the committee. I beg your indulgence to read a short statement from Mr. Frederick H. Vahlsing, Jr., who is in Central America and could not appear.

May I read it?

Mr. FOLEY. Yes, proceed.

**STATEMENT OF FREDERICK H. VAHLSING, JR., POTATO PROCESSOR,
AS READ BY LLEWELLYN WATTS, JR., CHAIRMAN OF THE BOARD,
NEW YORK MERCANTILE EXCHANGE**

Mr. WATTS (reading)

Mr. Chairman, honorable members of the House Subcommittee on Domestic Marketing, I am here to speak against H.R. 7287. I am Chairman of F. H. Vahlsing, Inc. and Vahlsing Christina Corporation. In Maine, we are major processors responsible for the processing of marketing of 8,000 to 10,000 acres of potatoes per annum.

I am against H.R. 7287 because it restricts free trade. I am in favor of futures trading in potatoes, which the bill would ban, because potato futures trading is the right of a farmer who wishes to buy or sell ahead. My firm made the very first trade in Maine potato futures back in 1947, 17 cars. We were incorporators of the contract.

Since potato futures trading began, just over 30 years ago, more than 5 million contracts have been traded to a very good purpose in helping farmers finance their crops by virtue of having a place to sell. The futures market gives the farmer a firm sale for his production, which he can then bank and use for financing. A farmer could be able to sell or buy ahead, as the potato futures contracts of the New York Mercantile Exchange allow him to do. It is a good, fair contract for both buyer and seller.

Futures trading helps farmers in grain, wheat, oil, cotton, orange juice, sugar, and a variety of other commodities, as well as potatoes. Futures trading is a financial instrument that is a natural ingredient of their businesses and which does no harm to anyone. When investors buy or sell futures for speculation, this too, is their right, and it only helps the farmer to do a better job of helping himself.

I respectfully and vehemently urge that H.R. 7287 not be acted upon favorably by this committee.

In the interest of saving time, Mr. Reardon is here and he has a little throat trouble. I shall read his statement and he will be available later for questions if anybody wants to ask him.

**STATEMENT OF ROBERT REARDON, GROWER AND SHIPPER OF
POTATOES, CAMBRIDGE, MASS.; AS READ BY LLEWELLYN WATTS,
JR., CHAIRMAN OF THE BOARD, NEW YORK MERCANTILE
EXCHANGE**

Mr. WATTS (reading).

Chairman Foley, honored members of the House Subcommittee on Domestic Marketing, my name is Robert Reardon. I am president of

F. J. Reardon, Inc., Cambridge, Mass. We are major factors in the Maine potato business in three different ways: as potato shippers, as suppliers of fertilizer, and as suppliers of lime. The fertilizer business is called Lionel Therriault Fertilizer. The lime business is called Les Amendements Calcaires. I wish to testify against H.R. 7287.

We sell fertilizer and lime to Maine farmers and in return they agree to give us a certain amount of potatoes. We immediately hedge these potatoes on the New York Mercantile Exchange and protect ourselves, and this is the only way we can do business with most potato growers in Maine. We know our money is secure. Otherwise we would not be able to put a fixed value on the potatoes we were to receive, and we couldn't really do business with farmers who have poor credit ratings. I don't know what they would do for fertilizer and lime if fertilizer dealers couldn't accept potatoes from them long in advance of payment—and we couldn't accept the potatoes without the existence of futures trading.

Obviously, futures trading is helping to keep the small potato farmer, with little or no capital, in business—whether he realizes it or not.

We have used futures for at least 25 years. Before the advent of futures, there was little knowledge up in Maine about the value of potatoes and dealers really used to be able to steal potatoes from the growers for very little money. The existence of futures prices helps these farmers who know future values even if they don't ever trade futures. Many farmers today don't remember what it was like when they had no idea of true values. You might think that for this reason I would be against futures trading, since futures make a more informed farmer who is tougher to bargain with when buying potatoes, but I am not. Futures are a highly useful, modern, economic way of making the potato business safer for all of us, the farmer and the dealer. I strongly support futures and hope you will act unfavorably on H.R. 7287.

Mr. Reardon will be available for questioning at any time you want.

Thank you very much for permitting me to read his statement.

This is my statement, gentlemen.

STATEMENT OF LLEWELLYN WATTS, JR., CHAIRMAN OF THE BOARD, NEW YORK MERCANTILE EXCHANGE

Mr. WATTS. Mr. Chairman and members of the subcommittee, my name is Llewellyn Watts, Jr. I am chairman of the board of the New York Mercantile Exchange. On behalf of the membership of the exchange, I thank you for the opportunity to appear before you to present this factual statement.

The New York Mercantile Exchange was chartered in 1872, and for a hundred years has served agriculture and commerce. It is a nonprofit member corporation, and is licensed and regulated by the CEA. The membership is made up of 408 producers, commission house partners or officials, jobbers, processors, retailers, independent and chain, shippers, brokers, banks, transportation interests, and independent investors. The interests involved are all the way from production to final distribution.

I suggest your careful consideration to the very able statement of Henry Wilson, president of the Chicago Board of Trade. Therein is contained incontrovertible evidence of the critical necessity for futures hedge markets, especially with so-called perishable products.

You have heard from Mr. Alex Caldwell, the able and experienced Administrator of the CEA and from the chairman of the New York Cotton Exchange, Mr. Conlin on both the technique and value of futures trading in potatoes. We will present witnesses and statements from Maine, Michigan, Minnesota, New York and elsewhere.

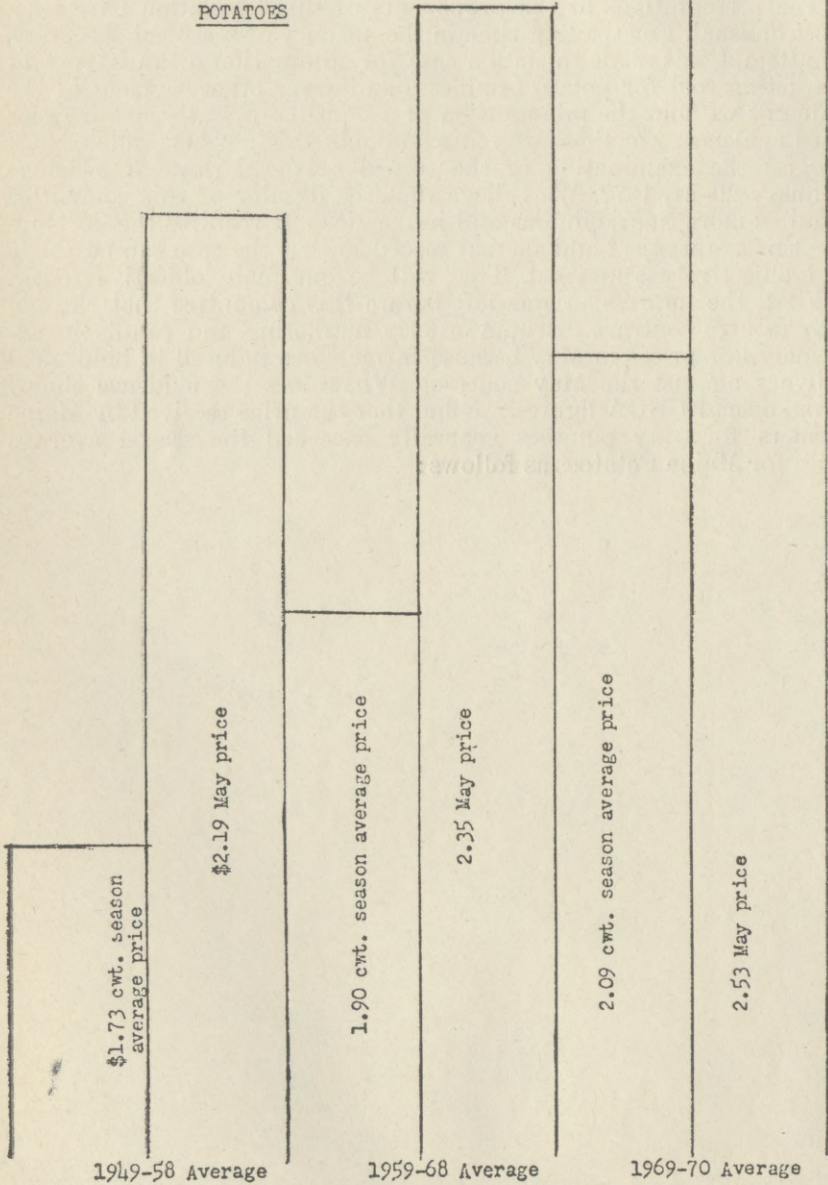
The presentations of the proponents of this legislation have been most unusual. For the first time in the memory of seasoned observers, an attempt was made to state a case for elimination of an important marketing tool for potato producers and every other segment of the industry without the presentation of a scintilla of statistical or other hard evidence. For those of you who doubt this unusual statement, I suggest the examination of the record of the 2 days of hearings January 20-21, 1972. We believe that the dignity of this committee requires more than opinions and innuendoes. It requires the development of a statistical and factual record so that the case can be fairly and objectively appraised. This will be our main objective today.

First, the impression was left before this committee that the potato futures contract disrupts orderly marketing and results in extremely low prices in May because farmers are induced to hold until delivery against the May contract. What does the evidence show? From official USDA figures, we find that the price received by Maine farmers for May potatoes generally exceeded the season average price for Maine Potatoes as follows:

Chart No. 1

Average Prices Received by Farmers

May Vs. Season Average

POTATOES

Average	Season average price received (hundred- weight)	Average price received in May (hundred- weight)	Additional return versus season average price (per hundred- weight)	Percent
1949-58.....	\$1.73	\$2.19	+\$0.46	+27
1959-68.....	1.90	2.35	+.45	+24
1969-70.....	2.09	2.53	+.44	+22

In 16 of the last 22 years, the May price received by farmers exceeded the season average price.

If May is compared with January-March average price, we find the following:

Average	January- March average (hundred- weight)	Average price in May (hundred- weight)	Additional return by holding until May	Percent
1950-59.....	\$1.71	\$2.19	+\$0.48	28
1960-69.....	1.88	2.35	+.47	25
1970-71.....	2.07	2.53	+.46	23

Mr. WATTS. The fact is, that farmers have done well by holding potatoes until May in most years. This is a fine record for the present marketing system and shows excellent results through holding, and not one to be discarded by emotion. Chart No. 1 shows this graphically.

2. It is rather significant, that the proponents of this legislation made reference several times, to the matter of orderly marketing without once defining this term nor providing any proof of disorderly marketing. The facts as revealed by the available USDA statistics show that the Maine potato producer has been and is doing a remarkable job of controlling the movement of potatoes to market in an orderly fashion.

Witness the following percentages of rail and truck shipments by months for Maine potatoes:

PERCENTAGES OF RAIL AND TRUCK SHIPMENTS, BY MONTHS FOR MAINE POTATOES

Month	1965	1966	1967	1968	1969
September.....	0.2	0.3	0.2	0.4	0.7
October.....	.6	1.3	.6	1.7	2.3
November.....	6.0	5.9	4.6	4.5	5.3
December.....	8.3	7.4	8.0	5.5	7.4
January.....	11.7	9.1	10.5	10.2	12.0
February.....	12.1	11.9	12.4	11.1	11.2
March.....	24.2	21.2	17.8	20.5	18.8
April.....	21.3	21.2	22.0	22.1	23.3
May.....	10.8	14.6	17.4	14.6	13.2
June.....	3.6	5.1	5.9	7.0	5.4
July.....		1.4	.1	1.0	.2

Mr. WATTS. I do not have the figures for 1970.

These figures are ample argument against those who argue that the futures markets induce disorderly marketing. These official statistics show that during the last 5 years grower shipments have been

well distributed, and by the end of May have varied narrowly with between 92 and 96 percent of the crop already marketed. This is a vivid example of orderly marketing.

Does it reflect the kind of mismanagement of marketing claimed by the proponents of this legislation?

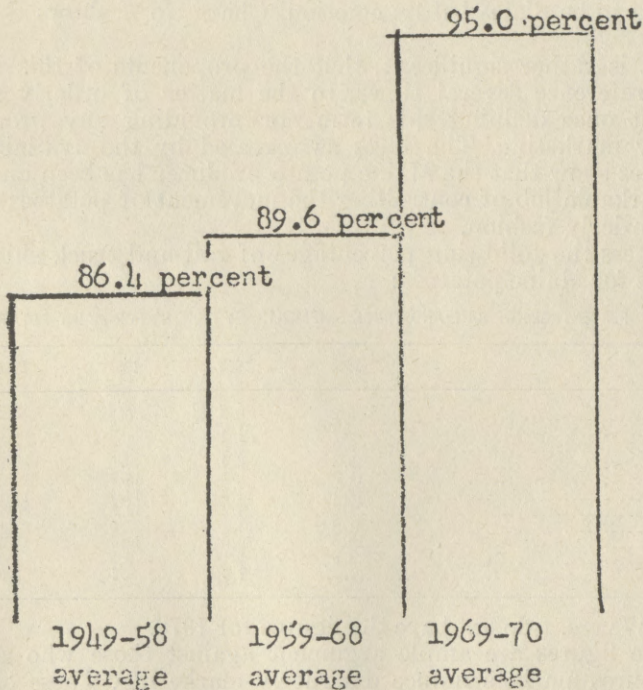
Moreover, Maine potato producers, contrary to the implications of sponsors of this legislation, are receiving increasingly higher prices relative to the U.S. average as revealed by the following table. (See chart No. 2)

Chart No. 2

POTATOES

Season Average Prices Received by Farmers

Maine As A Percentage of U. S. Average



Mr. WATTS. The following data are from official USDA sources :

Ratio of Maine to U.S. Average

1949-58.....	86.4
1959-68.....	89.6
1969-70.....	95.0

(3) The chairman of this subcommittee showed great insight as to the problems facing the Maine potato producer, when he said, "There is an incentive if prices are soft to try to chase price with production."

In his recent statement before this committee, Mr. Chipman C. Bull said the following:

There are not very many potatoes that are good potatoes anywhere in the country, with a few exceptions possibly, that are ever dumped, thrown away. They are all sold and they are all used. If there are too many of them, based on somebody's forecast, then it takes a lower price for them. He is going to sell them but at a lower price.

In the official annual crop summary released by USDA on January 14, 1972, we find the following:

Fall production in 1971 totaled 249,895,000 cwt., one percent less than the record 1970 crop of 252,774,000 cwt. Output in 1971 was harvested from 1,064,300 acres, 22,600 less than in 1970 and 6,600 under 1969. Average yield per acre of 235 cwt. is a record high for the U.S. fall crop. Yields averaged 233 cwt. in 1970 and 223 cwt. in 1969.

Therein lies the real problem facing the potato producers of Maine.

Actually the Maine producer has reduced acreage by 10 percent between 1969 and 1971, but increase production due to record yields. Production in the rest of the country has been rising rapidly and creating difficult competitive problems for Maine producers. See the attached material showing production of non-Maine fall potatoes. (See app. A.)

The overriding problem affecting Maine producers and other producers of fall potatoes is distilled in two sentences in the 1971 Acreage Marketing Guides issued by USDA which follow:

For the 1971 season, USDA recommends that growers reduce total plantings substantially so that the resulting output will more closely match market needs. If so, the reduced supplies likely would result in a better return to growers.

In these planting guides, the USDA recommended a 10 percent cut in production of fall potatoes. Production was reduced by only 1 percent—acreage by 2 percent.

USDA has announced the 1972 guides for fall potatoes. It recommended that acreage for fall potatoes be reduced 7 percent from the 1971 level. The New York Mercantile Exchange stands ready to work with the Maine Potato Commission and any other interested groups to publicize and take other actions to help farmers to help themselves by adjusting production in line with the guides. We stand ready to be of assistance in promoting this excellent food. For we believe that the overriding problem facing fall potato producers is overproduction, not futures trading. May I interpolate right here that I am a merchant and I do not want to take issue with the

Department of Agriculture, which calls the use of potatoes inflexible. But there is no such thing as inflexible use of potatoes. As a merchant, I say we are suffering not from overproduction but from under-consumption and it is high time we did something about reaching the consumer and publicizing the value of potatoes as a food.

I go on.

We wish to clear up an inaccuracy revealed in the testimony by Mr. Chipman Bull when he said as follows:

In paid advertisements in a daily newspaper published in Aroostock County, Maine, the main information office of the New York Mercantile Exchange showed from USDA figures: "Prices received by Maine potato farmers average higher than prices received by Red River Valley and Southern Idaho farmers in 11 out of the last 15 years and for northern Idaho the Maine potato farmer received better prices in nine out of the last 13 years." What the Exchange's so-called information office neglected to say was that Idaho and Red River Valley prices don't reflect the cost of packing and that the prices received by the farmers in those areas are actually the amounts paid for naked potatoes and in the case of Idaho for naked potatoes into storage areas. The Maine prices are those paid to growers after growers have incurred the expense of storage, crating, shrink, packaging and loading into rail cars and into trucks for transportation.

To respond to this allegation we thought it best to ask the people who prepare the official price received reports, which we used as the source, the respected and objective statistical reporting service, for information regarding this technical matter.

As you know this group has been publishing price received data for agricultural commodities since 1866. These data are used by the Congress, the executive branch, the many farm organizations, and by agribusiness.

The following is from a letter dated February 1, 1972, from the agricultural statistician in charge for Maine:

We conducted a detailed survey on marketing of the 1970 crop of Maine potatoes. We have nothing comparable for the two previous years and believe there would be very little change in the percent sold bulk or packed between these years.

The proportion of the crop sold directly to consumers is very small and would be included in the percent packed in bags. We do not have a separate breakdown for that item.

Potatoes, Maine 1970 crop, percent marketed bulk and packed:

<i>Method of Sale</i>	<i>Percent of Total Sales</i>
Bulk	60
Packed in Bags	40

If we can be of further service, please let us know.

In the case of Idaho, the portion of the crop used by processors—all bulk—was 59.5 percent. In Minnesota, the sales as bin-run potatoes was about 45 percent of the crop in 1970.

Thus, it is an extreme inaccuracy to state to this committee, in referring to Idaho and Red River Valley potatoes, "That the price received by the farmers in those areas are actually the amounts paid for naked potatoes."

Actually, a greater percentage of potatoes were sold on a "naked" bulk basis in Maine than in the two other areas referred to by Mr. Bull.

5. There are some who believe that by eliminating potato futures, potato acreage would be reduced because certain farmers who could not otherwise obtain financing to put in a crop are enabled to do so by hedging on the New York Mercantile Exchange. This argument requires only the full understanding of its social implications, and what it should do to the family farms, to be discarded.

6. Reference has been made to the stipulation of compliance signed by the New York Mercantile Exchange. The stipulation grew out of a commodity exchange authority investigation of trading in Maine potato futures on the New York Mercantile Exchange on May 8, 1970.

The background of this stipulation should be placed on the record.

In March 1970, the New York Mercantile Exchange had introduced a new system of contract clearance, shifting from what we called hand clearing to computerization. The computer operators were new at handling our complex problems, and were unable to keep up with the extremely large volume of trades on that date, Friday, May 8—over 7,000 cars in one contract. Actually, although we worked the whole weekend, it was not until some time after opening the following Monday, May 11, that we were able to balance the purchases and sales and determine the exact quantity required for delivery. This was a technical failure to comply with our own rules.

Also, we were operating under our rule 43.04(b), which permitted an extension of 45 minutes after the close of the session solely for the correction of errors by open outcry. However, in a manner not in accordance with our own rules, 42 contracts were entered into after the end of trading time. All trades were at the official close of \$4.35 per cwt. This was a violation, even though there was no loss or damage to anyone involved in the contract because of this lapse.

I signed a stipulation for the exchange acknowledging the violation. The New York Mercantile Exchange imposed penalties on those responsible for the breach in that rule by suspensions of 3 weeks to 1 full year, and fines from \$250 to \$1,000.

The CEA told us to eliminate this rule 43.04(b), and we have. You may be assured that we are doing everything possible to prevent a recurrence.

I wish to make one point abundantly clear. The entire structure of the New York Mercantile Exchange rests on the fundamental policy of fair play and honest dealing in futures trading. This concept is of vital importance in maintaining equity in the pricing and marketing of every commodity traded under our auspices.

7. The U.S. Government has studied the matter of potato futures and has concluded that:

Futures trading, as in many other commodities, fulfills a useful and needed economic function in the marketing of potatoes. The facilities of the exchanges are being used by many growers, cooperatives, shippers, merchants, chain-stores, and processors as a means of hedging price risks. The proportion of futures trading in potatoes reported as being used for hedging purposes compares favorably with that of other commodities. Potatoes have been subject to wide price fluctuations. By use of hedging, farmers, dealers, and others in the potato industry have been able to protect themselves from this price variability and able to market potatoes on an economic basis.

The potato futures market also fulfills a vital economic function by furnishing a pricing basis open and known to all. The focusing of supply and demand forces into one place, and the wide dissemination of prices competitively determined in the market, are of benefit to all persons concerned with the marketing of potatoes.

One of the major economic functions of the New York Mercantile Exchange is to minimize the marketing cost between the producer and the consumer. For producers and agribusinesses, credit risks and costs are sharply reduced.

On August 4, 1965, the then Security Orville Freeman wrote:

A futures market exists to provide services for persons engaged in the production, distribution and marketing of a given commodity. These services include the channeling into one place, the market, of the many factors of supply and demand; evaluation of these factors; and wide dissemination of the resulting futures prices. The futures market also, through the participation of speculators, provides persons handling the actual commodity an opportunity through hedging to decrease the price risks which are inherent in the ownership of the commodity.

Studies and surveys made by the Department indicate that the futures market in Maine-grown Irish potatoes, conducted by the New York Mercantile Exchange, provides these services satisfactorily. The potato futures market is sufficiently large and broad based to constitute a representative market.

8. One of the major arguments against trading in futures in potatoes is the question of perishability. The argument is used that, unlike grains, there is no carryover to smooth out the abruptness of the price change from one marketing season to the next. First, it should be pointed out that the potatoes are not the only commodity which faced abrupt price changes from one year to the next. Live hogs faced a similar problem of an abrupt change in price shifting from extremely low prices in most of 1971 to much better levels currently, reflecting reduced production. The transition was smoothed by the use of the futures market. The basic fact is that the lack of carryover stocks makes the need for an effective futures market all the greater.

The contract delivery months for potatoes extend from November to May, well within the normal commercial storage period from September-October to July. As a matter of fact, from the standpoint of futures trading, potatoes are a stored commodity. Sprout inhibitors have been approved by the Food and Drug Administration, and actually make the commodity a year round product. They are storable.

The basic refutation to the perishability argument is that from the U.S. Department of Agriculture, which reported as follows:

It is our opinion that this commodity is suitable for futures trading as now conducted on the New York Mercantile Exchange. The maturity date of the May or final future traded . . . is well within this period in which the commodity can be carried in storage.

Only 4 to 8 percent of the crop has been shipped after May in the last 5 years as I have showed in this table.

Also, there are many commodities which are traded currently which might be considered by some as perishable. I refer to live hogs and cattle, shell eggs, and frozen pork bellies.

(9) Another criticism of futures trading in potatoes is that there is excessive price change in Maine potatoes. Probably the best and

most objective response is that provided by Secretary Freeman in a letter to former Chairman of the House Agriculture Committee, Harold Cooley.

Even though there is a wide variation in the prices of Maine potatoes from season to season and within a particular marketing season, price fluctuations do not appear to be increased by futures trading. The average prices received by farmers for Maine potatoes generally fluctuate no more than the prices of potatoes produced in other states which are not traded on futures markets. The prohibition of futures trading could not be expected to eliminate these wide price movements, which are inherent in the marketing of a commodity having, as do potatoes, an inelastic demand and substantial variations in the size of the crop from year to year.

I am sorry I argued with the Department of Agriculture as I did previously, but I still maintain my position as a merchant.

Processors' prices for Maine potatoes have an increasingly strong effect during both the early harvest and the winter months as a result of the increase in recent years of the percentage of the crop going into processing. Some 40 to 50 percent of the crop is being processed.

The existence of this futures market enables these processors to contract in advance and hedge their sales and purchases on the New York Mercantile Exchange. The trend is toward a greater share of the crop into processing.

The following USDA data reflect this trend:

PER CAPITA CONSUMPTION INDEX, 1960-71; 1967 EQUALS 100—POTATOES AND SWEET POTATOES

Year	Fresh	Processed
1962.....	121	64
1963.....	124	69
1964.....	113	76
1965.....	105	86
1966.....	106	98
1967.....	100	100
1968.....	101	106
1969.....	99	110
1970.....	95	114
1971.....	95	118

Speculation in commodity futures has, at times, been investively attacked, but without speculators there would not be sufficient traders to assume the hedging risks. Mr. Rodger R. Kauffman, when Administrator, Commodity Exchange Authority, testified at a congressional hearing that:

Speculation, as you of course well know, is essential to the operation of a futures market. A commodity futures market without speculation would be a thing of death; it would not amount to anything. It would serve no economic utility. So there must be speculation, of course.

We are sure that the current administration of the CEA would endorse Mr. Kauffman's statement.

Sales for future delivery are necessary to assure producers an outlet, and processors and consumers supplies throughout the marketing year. The futures market evolved because of the recognized need for a better mechanism for pricing these forward sales. Let us not revert to a more primitive form of trading.

Futures markets are superior to earlier forms of forward sales in many ways. First, they are organized and supervised open trading—not private negotiations. Second, there is a formal clearing house between the buyer and seller with the delivery terms most specific as to a standard form of commodity. Thus, the only item up for negotiation is price. This permits an economy of effort and liquidity not otherwise possible.

To summarize:

- (a) Futures trading makes for orderly marketing.
- (b) The public and trade participation results in price consensus, a reasoned and considered estimate of forward value based on prospective supply and demand.
- (c) A futures market reduces price risk to producer, shipper, distributor and processor, thus reduces the cost of doing business, benefiting producers and consumers.
- (d) Potatoes are storable.
- (e) The speculator is an essential part of any market. The idea that speculators dominate a market is false. Every short has a long counterpart and vice versa. The idea that short sellers are always making a killing is so ridiculous as to hardly require a reply. It would be a royal easy road to riches if it were true.
- (f) Constantly repeated inaccuracies of statistics errors and slogans do not solve the problems of this industry.

We are convinced that time, effort and funds used in fighting us and defending the attack, might better be used to improve the grade and quality and promote the acceptance of Maine potatoes, not only among producers and in the trade, but directed to the consumer where it really counts.

There is no real unanimity on the evils of futures. I submit a copy of the Idaho Farm Bureau bulletin for October 1971 in favor of futures and warning against doing away with them. Also attached are two futures favorable editorials from the Journal of Commerce and one from the Star Journal, Presque Isle.

(g) I would like to comment on the attack on the USDA. This is an important department of our Government, and is not administered by incompetents. As far as the CEA is concerned, its administrators are highly efficient and capable.

In conclusion, an active and well conducted futures market is the nearest approach to perfect competition in price-making in the field of economic and commercial development. Competitive price making in futures is the opposite of imperfect competition and monopoly. History teaches us that market trading, fairly and freely conducted, is a standing safeguard against those who—human nature being what it is—would much prefer to seek their advantage in special or monopolistic privileges. The commodity futures system could not have become standard commercial practice in the United States if it had not become associated with the public interest, if it had not proved its capacity—in spite of many trials and errors—to stand as a bulwark against monopolistic forces in marketing.

Potato producers and every other segment of the industry need the competitiveness of the public in a free open regulated market. This

market reflects the full effects of market intelligence, whether potatoes are in short supplies or plentiful.

Our free institutions are buttressed by free markets.

Fundamentally, the activities of a large number of diverse interests can be coordinated in only two ways. One is by central direction, which is the technique of the totalitarian state. The other is by voluntary cooperation—the technique of the marketplace. Voluntary cooperation functions best if both parties are beneficiaries. The essential feature of the futures market is that it enables people to cooperate voluntarily in extremely complex situations.

Effective freedom of the marketplace is the essence of political freedom. The commodity market system is one under which economic power becomes diffused into a broader system of checks and balances. The survival and constant improvement of the free commodity market system reflected in the futures market for potatoes is a major contribution to our economic health.

We respectfully request that you not approve H.R. 7287.

Thank you very much.

(Attachments to prepared statement follow:)

APPENDIX A
POTATOES, FALL—ACREAGE HARVESTED
[Thousands]

Year	United States	Maine	Non-Maine
1962-66.....	989	146	843
1967.....	1,089	158	931
1968.....	1,030	155	875
1969.....	1,071	156	915
1970.....	1,087	150	937
1971.....	1,064	145	919

Note: 1971 acreage in Maine was slightly less than the 1962-66 average. 1971 acreage outside of Maine was up 9 percent.

PRODUCTION
[Thousand hundredweight]

Year	United States	Maine	Non-Maine
1962-66.....	202,431	37,473	164,958
1967.....	231,224	36,890	194,334
1968.....	220,786	36,425	184,361
1969.....	238,475	35,100	203,375
1970.....	252,774	35,700	217,074
1971.....	249,895	37,700	212,195

Note: 1971 Maine production was about the same as 1962-66 average. 1971 production outside of Maine was up about 30 percent.

From the Journal of Commerce and Commercial, New York, Thursday, Oct. 2, 1970

AN ASSAULT ON A MARKET

Perhaps it was only to be expected that one political leader or another would rise in these final days before the elections to demand that the government prohibit all trading in Maine potato futures. While potatoes are grown in almost every state in the union, Maine produces more than any other state except Idaho. It has produced an especially large crop this year and accordingly prices have weakened.

A sag in the price structure is not unusual at this time of year. Traditionally

futures prices in potatoes tend to achieve their annual peaks during the spring months and then decline through the harvesting and the fall months.

A lot of factors can determine the fate of the Maine crop. These include weather conditions, the market for exports and, when in effect, the status of government diversion programs. There is no doubt that factors such as these have combined to influence the price structure in recent months, but there are some—as usual—who tend to view the less pleasant fluctuations as part of a plot.

Governor Kenneth M. Curtis, of Maine, is among those who take this view. He believes that speculators are at the bottom of it, and specifically those operating through the New York Mercantile Exchange, where the number of futures contracts in Maine potatoes may vary from over 365,000 in a year like last year to more than 590,000, as was the case in 1966.

Governor Curtis maintains he has the support of the Maine Potato Council and of four out of five of the growers in Aroostook County, and we have no reason to doubt that he does. There is a tendency on the part of many producers to "blame the market" when the latter takes a turn they consider unfavorable while discounting the factors that actually caused the turn.

It is quite possible that once the elections are over Maine's politicians, including the governor and including Rep. William D. Hathaway, will turn their attention to other matters. But it is also possible that they won't. Campaigns of this sort have a way of picking up considerable political steam, if skillfully handled, and if the Department of Agriculture and the Commodity Exchange Authority can be somehow drawn into the fray.

It should be remembered in this connection that an intensive campaign to end futures trading in onions succeeded and in consequence this market disappeared. Not too many years ago attempts were made to secure a similar ban on futures trading in Maine potatoes. This did not succeed at the time, but for some weeks it was nip and tuck as to whether it would or not.

What bothers us in particular about these moves is that all too often the growers appear to have been misled not only as to the source of their troubles, but as to the consequences of a stoppage of futures trading.

In the case of onions the growers were distressed by what they considered onerously low prices. Directly after futures trading was halted they saw their prices drop lower still. Nor were they spared the fluctuations they believed had been caused by futures trading. What they lost when this particular market was eliminated was the best means available to keep these fluctuations to a minimum. We have no reason to think the case would be any different with Maine potatoes. On the contrary, we agree with the comment made this week by Llewellyn Watts, Jr., chairman of the board of governors of the New York Mercantile Exchange.

The termination of futures trading in potatoes would, he said, "be the worst tragedy that could befall the industry and would penalize the grower most. The futures market has given price protection to every factor in the trade. It has stabilized prices and prevented catastrophic declines so prevalent before the futures market was in operation. It has been a help in obtaining needed credit. To destroy an efficient and well-operated hedge market would be a serious blow to business and free enterprise."

This is quite true. The fact is that the Maine potato futures contract on the New York Mercantile Exchange has been and still is considered an excellent contract and is widely used among the trade as a basic instrument. It is probably as extensively used for negotiations in the actuals (cash) markets as any other contract established for futures trading in commodities.

We would not like to see this important market sacrificed for reasons that are largely political. We think the growers who are now asking that the sacrifice be made should study what happened to those who felt the same way about trading in onions.

From the Journal of Commerce and Commercial, New York, Tuesday, Jan. 18, 1972

SMALL POTATOES

Why is it that so many people who recognize the function of the New York Stock Exchange and other securities exchanges feel that there is something

backhanded about the way that commodity prices are reflected on the commodity exchanges?

For the life of us, we cannot figure it. In fact, the need for commodity exchanges, with all the opportunities and pitfalls they offer to those who want to take the chance, is far greater than the need for the security exchanges. Everyone needs commodities. Nobody actually needs securities. We all consume commodities. None of us thinks of securities in terms of anything much more than the commodities we will buy at some future date. If we are lucky in playing the stock market we will, at some time or other, be able to buy more services and commodities. If we are not, we can forget about both.

A share of stock is a formal recognition of a participation in something that may pay dividends someday and, then again, may not. A commodities futures contract is a promise to deliver or accept delivery within a specified period of something that is real, that is measurable in one context or another, and which is destined for consumption.

This is one of the reasons why we are puzzled by the individuals who, while granting that the securities markets may be necessary, rail constantly against commodity futures trading to the extent that it involves some product in which they have an interest. Their claim usually is that the futures markets deprive the producer of his hard-earned gains. On the few occasions in which they have been successful in entirely eliminating futures trading—onions are one—they have succeeded only in making the market more chaotic than it was before they managed (as they thought) to put a stop to all the hedging operations that are as much a part of the American landscape in commodities as they are in securities.

But we're back again facing, as we have in just about every session of Congress since 1962, legislation to bar futures trading in what are variously called Maine and Irish potatoes (traded in New York) but which would also hit at Idaho potatoes (traded in Chicago).

Now what is the purpose of all this? As expressed by supporters of the proposed legislation it is to "stabilize" the price of potatoes. In fact it is not to stabilize them at all but to keep them at the highest possible levels. In other words, it is not the consumers whose interests are getting all the attention, but the producers.

Well, this is not exactly a new proposition to American society. All sorts of schemes have been devised—at a time when the administration says it is trying to keep them down—to force prices up. Why blame the growers of Maine potatoes when so many more and larger producers have been able to get themselves into the act? Among them we could count petroleum, meats, textiles, benzenoid chemicals, dairy products and wheat, to name a few.

Perhaps nobody should blame the potato grower. But that is not the point. The point is that, whatever producers of other products have been able to accomplish through higher tariffs and import quotas, a ban on futures trading has never been able to accomplish anything at all.

It is true that potato prices on the spot markets vary greatly from one season to another and from one year to another. It is just as interesting to observe that the drive for a ban on future trading drops into a very low key indeed when the spot potato prices are high. Only when the price levels plummet are the futures markets blamed for contributing to what suddenly becomes the "instability" of the market.

So suppose Congress is finally persuaded to make the pathetic error it made when it prohibited any more futures trading in onions. What will it have accomplished? It will have accomplished this alone. It will have guaranteed growers higher prices than they get now when supplies are short and the demand is high. It will also have guaranteed them a lower return when supplies are plentiful and the demand is low. And that is where the real problem lies.

Does anyone seriously suppose that this kind of legislation will solve the problems facing potato growers? That it will somehow sweep under the rug problems of overproduction, rising production costs, competition between various potato growing areas and the need for more imaginative merchandising? Of course it won't.

It is perfectly silly to think that problems as endemic as those of the potato growers can in any way be solved by the perennial proposals of a prohibition

against futures trading that come up year after year in Congress. To blame on futures trading the limping state of the potato market is like blaming on the tariff structure the vanished market for Conestoga wagons. It is like saying that no matter to what extent producers of a given market overestimate the demand for their product, they deserve federal protection from their errors in judgment.

We sympathize with them, to be sure. If we thought there was the slightest possibility that their plight might be eased by ending futures trading in potatoes, we would have taken a kinder view than we have. But since the experience with onions has proved that they are heading into a dead-end street, it is time they should be casting about for more sensible alternatives.

From the Star-Herald, Presque Isle, Maine, Jan. 26, 1972

KILLING ADAM SMITH

We're with Rep. Thomas Foley on his comment regarding the elimination of potato futures that we must take a long hard look at any legislation which seeks to bar any economic activity.

This move on the part of the Maine Potato Council is just another in a long history of such American attempts to legislate away problems that just can't be written off.

On a foreign scale we have protected our industries with tariffs and now we are paying the price. Instead of rolling up our sleeves to find an honest way to meet the competition, we wrote a law; sat back like fat cats and took it easy.

As a result, the Japanese and the Germans, unafraid to work and think, have now gone so far past us that those tariff laws are no longer any good and we are in an economic crisis.

We would prefer to see the farmers struggle to find ways to make a profit on a \$2 barrel of potatoes. That's the honest way, that's the way that built this country.

In essence the MPC backed law is legislation against the farmers themselves. Testimony for the bill before the subcommittee charged that futures trading put potatoes prices in the hands of speculators and gamblers.

This may be somewhat true, but the worst gamblers and speculators are the potato growers themselves.

Rather than selling their potatoes in an orderly fashion, they all horde their crop until May. Any poker player can tell you a true gambler—someone who relies on luck rather than mathematics—is the person who tries to make a killing on one big hand rather than a decent profit on a lot of smaller ones.

Any bad effects from the existence of futures trading is due more to the greed of the farmer who watches them than anything else.

If more farmers would settle for making a decent profit throughout the market season rather than holding onto their supply and gambling on a killing in May, the legislation would not be necessary.

Mr. FOLEY. Thank you, Mr. Watts. If you will just remain at the witness table there, we will proceed now to the questioning by members of the committee of the previous witnesses who have testified—Mr. Melamed, Dr. Hieronymus, Mr. Powers, Dr. Gray, and Mr. Watts.

The Chair is going to have to absent himself for a few minutes from the committee room. But first of all, I would like to ask a brief question of Mr. Melamed.

In your statement you referred to the fact that some use the commodity exchange improperly.

Mr. MELAMED. Yes, sir.

Mr. FOLEY. Did you mean unethically or ineffectively or unsuccessfully or—

Mr. MELAMED. No, as I continued to point out in subsequent paragraphs, what I was referring to is the fact that the original or initial hedger, if he were merely to remain as such an then subsequently, upon maturing of the contract, do one of two things—either deliver on the contract if that is warranted, or get out of the future transaction and market his potatoes in a normal channel, he would have no complaint. The one I am referring to that would use it improperly is the guy that initially hedges his potatoes and then subsequently, if the price continues to advance, as it often does, continue to hedge more than his crop warrants that he does. In this case, he is using it improperly—for him improperly, at any rate—because he is becoming a speculator and as such, is taking the risk or chance of a speculator. He might as well be a doctor or a lawyer or anything trading in a commodity that does not necessarily have anything to do with his profession. Because he is speculating, and if he is wrong, he has not used the market improperly as a speculator, but certainly as a user or grower, that was not the original intention of why he went into the market. Those were my reasons.

Mr. FOLEY. I understand. Thank you very much.

Mr. Sisk?

Mr. SISK (presiding). I thank the chairman.

Let me say to you gentlemen, rarely have I faced such a battery of friends, I assume, from the statements that I have been hearing all morning. As I represent thousands of farmers in one of the largest farm districts in California, I am, of course, concerned and interested in views about the future of the American farmer in this country. I know that I would not have to go very far to find many who would probably disagree with a great many things that have been said here. That I am not saying necessarily to reflect on you, because you are in business to make money exactly like the farmer is in business to make money. I in no sense begrudge you that opportunity.

Let me ask you, Mr. Melamed, if you believe in the right of collective bargaining on the part of the American farmer?

Mr. MELAMED. Well, this is a relatively new concept, at least new on the forefront of the American farming scene. I have not formed an opinion one way or another, specifically, that I could answer this. I see that there is much merit that lies with that thought.

I think that it also has inherent dangers that ought to be cared for and I would like to study that one further before I could answer it. Perhaps some of the economists around the table have formed a view on this.

Mr. SISK. In other words, you have questions in your mind whether or not the farmer should have the right of collective bargaining for a price for his commodities?

Mr. MELAMED. No, fairly answered, that is not true. I do not have at all the question that he has that right. The question of whether that right will in fact provide him a better price structure in time, whether this will produce a better system for agriculture and the

American economy, those are my questions, not that he has the right. There is no question that he inherently has that right. I would certainly protect him to the last ounce of my strength for having that right, sir.

Mr. SISK. Do any of you gentlemen have any comment on the question of the right of the American farmer to bargain collectively either in co-ops or as bargaining associations?

Dr. GRAY. I would like to comment, Mr. Sisk, if I may. I am Roger Gray.

I certainly agree with Mr. Melamed that there is not any question of the right of the farmer to organize and bargain collectively. It is a basic right. He should have that right.

Mr. SISK. Well, let me clarify. By action of S. 1109, Capper-Volstead and other acts, this Congress over the period of many years has given that right, particularly in S. 1109. In 1967, we gave the farmer a right to join in associations for bargaining. Unfortunately, he finds himself very often in a position where he had nobody to bargain with. What I am trying to find from you gentlemen is whether you favor that he be given the right to bargain and have somebody to bargain with when he produces the commodity.

Dr. GRAY. I was going to that point. I was going first to point out as you have done that that right has been established in law for many decades in this country. We have our marketing agreements, our marketing orders. We have the Capper-Volstead Act, and so on, so the right is clearly established and no one questions it.

I do think that as in any such instance, whether you are talking about a Wagner Labor Relations Act or any other piece of legislation that endeavors to set forth these rights as matters of law that you always have to consider what other rights are also involved of other citizens. I personally think that I do not go to the point of feeling that this right of the farmer or the laboring man or the college professor or anybody else to organize and bargain collectively should ever extend so far as to traduce other people's rights or to require of other people that they must, in order to protect another group's rights, they must sacrifice their own rights to bargain freely.

Mr. SISK. Any of the rest of you gentlemen—would you like to answer that, Mr. Watts?

Mr. WATTS. Yes. I believe that the farmer should have the right to collectively bargaining. However, I am still talking as a merchant, not as an economist. He must have somebody to bargain with and I think that he should take—it depends on the formation of collective bargaining group and so forth, on who is included in the bargaining. One side of a market can't bargain by itself. He would be lost, absolutely lost. You need the other side.

Mr. SISK. That is exactly, Mr. Watts, what I am talking about. That is what this Congress is concerned about. It takes two people to bargain, you know.

Mr. WATTS. That is true. The importance of distribution is underestimated. Without distribution, you would have no need for farmers and you must have distributors and you must have people to bargain with. If that is what you mean, I am very much in favor of it.

Mr. HIERONYMUS. I am Hieronymus and I have to confess that I am behind in my homework. This matter is a stack of literature on my desk and I have very carefully avoided reaching any conclusions about this.

So I think in all honesty, I have to disqualify myself from speaking to it at this time.

Mr. SISK. Let me clarify my question. My question goes to the issue we have before us today. You gentlemen may or may not know that I have some interest in the Agricultural Bargaining Act which is now pending before this Congress and which is of a great deal of concern across the country. I am not trying to inject that bill into this discussion except as a basic concept for a followup question.

Mr. POWERS. I wanted to talk to that question in that I do not believe the bill that you have—and I am like Tom, I am behind in my homework. I do not believe that collective bargaining or the movement of our agricultural structure toward a more vertically integrated structure is necessarily inimical to futures trading. As a matter of fact, I think we might find that futures trading would become more important as we move toward a more controlled system. I can see the situation where farmers and farm groups may be bargaining more on other aspects of the sale of their commodities than on price; that is, they may bargain more on specifications for quality and specifications for delivery, the type of packaging, the timing, et cetera, and less on price. In that instance, it may be even more important that a competitively determined price external to the system—that is, something that an organization like a futures market, through which the product does not necessarily or normally flow—may become more important in their bargaining efforts. As an example, a major farm organization that may be thinking or involved in a contracting procedure, say to feeder cattle. The futures market for feeder cattle, and this would be true of potatoes or any other commodity, provides a very good mechanism for them to maintain the flexibility for both the buying side of the contract and the selling side of the contract with respect to the timing of the pricing of the product.

Therefore, I really think there is another aspect to it, and that is that the purpose of price in our society is to allocate resources and to distribute output. That is true whether we move toward a more closed system or whether we keep the more open system that we have had, that we have now and have had in the past. In that sense, I think futures trading might become more important.

Mr. SISK. Now, let me get it straight. You are Dr. Powers?

Dr. POWERS. Yes, I am.

Mr. SISK. Well, in view of the fact that Dr. Powers has led into, really, what my next question was—I might say that the reason I ask it is the fact that after some 3 weeks of hearings on the legislation that I have referred to, the objections to that legislation on the part of a number of groups—and I am now speaking of the so-called agribusiness groups, not the farmers themselves, for example, the grain exchange—is that—it just will not work; you just can't have collective farmer bargaining under provisions of this type because of

trading in futures. And of course, they are not only applying it to grain but many other commodities in connection with futures.

So in essence, the argument was made and has been made to me many times individually by representatives of these groups that the fact that these commodities are now traded in futures would preclude them then from being collectively bargained by former bargaining associations.

So I am interested, then—that is why I asked you gentlemen in the first place if you believe that farmers do have the right to join together to bargain for commodities which they have produced. If you do, then do you believe that it will work successfully with a commodity traded on futures exchanges?

Mr. Watts, do you want to comment?

Mr. WATTS. I do, I do, very much. I think in that case, you will need futures contracts, futures markets, more than you do now.

Mr. SISK. So that in your opinion, then—

Mr. WATTS. In my opinion, there is nothing to prevent the use of futures markets. As a matter of fact, they will be more necessary than ever.

Mr. SISK. In other words, what I understand you to say—

Mr. WATTS. I do not like to be a dissenter, but it is true; I believe that.

Mr. SISK. I appreciate your comments because you gentlemen are expert in the art of trading and what goes on in the trading within these commodities. And as I have said, I am again not trying to pin some people to the wall, but we have had many testify that you cannot operate farm bargaining, collective bargaining, as we are proposing and have a futures market. As I understand what you are saying, we can. The futures will be helpful to bargaining. Is that right?

Mr. WATTS. Yes.

Mr. SISK. Thank you. I appreciate that testimony.

Yes, Dr. Gray.

Dr. GRAY. I would like to comment again if I may. I cannot plead the ignorance that some of my more fortunate colleagues have been able to plead here. I have read your bill and I have given it some thought. I do not think I like to see it cast quite in the terms of this either/or, futures or bargaining, and that one precludes the other. I am willing to say that it is perfectly clear in my mind that any arrangement which leads to price fixing, which leads, as we have seen operative in grain and cotton price support programs at various periods of time, obviates the necessity for a futures market. If there is no price change to hedge against, there is no need for hedging. If there is no price change to speculate on, there is no incentive to speculate. So that relationship is clear in my mind.

And then, it seems to me further that the obstacle on the other hand to the kind of bargaining arrangements that your bill sets forth is not that some people believe in free futures markets and others do not and people think it is either/or. The obstacle is, I think, rather to what extent is it feasible without, again, really not just traducing the rights of merchandising firms and buyers of the farmer's product, but without traducing the rights of the farmers themselves to make free contracts with whomever they want to.

How successfully can one establish in law this right that the farmer has to bargain? In the final analysis, it seems to me the question is for such commodities as the grains where the marketing arrangements tend to be centralized, yet the production is spread over very wide areas, which is the more efficient system or what combination of these systems is in everybody's best interests?

I do resist the notion that the objection to bargaining is that it would kill futures. I do not think that that necessarily follows at all.

Thank you.

Mr. SISK. In your judgment as an economist, then, you feel that just because a product or a commodity is bargained and marketed and handled through a futures program would not preclude it from bargaining by the producer of that commodity. I am not trying to put words in your mouth, but as I understand it, that is your statement?

Dr. GRAY. That is right. It does not necessarily produce bargaining arrangements. To the extent that those bargaining arrangements are not really bargaining arrangements but become price fixing arrangements that apply to everybody involved, then clearly that is inimical to everybody concerned in the industry.

Mr. SISK. Mr. Melamed, I do not think you commented on the application of collective farm bargaining as it would have a bearing on futures trading.

Mr. MELAMED. Qualifying it with the fact that again, I am not familiar with the exact provisions of that collective bargaining bill, however, I am sufficiently conversant with the idea, and I think that even, with all due respect, Mr. Sisk, none of us can predict what eventually will be the effect—that is, over a 10-year period or so—of such a bargaining tool as to how it will really work given all the forces within the marketplace. That is, just how it will operate and just how it will work—hopefully beneficially. Yet we do not know to what extent or how the farm organizations or what not are going to apply themselves in these situations.

Now, with that kind of view—and I think that is reasonable, to take that view that we do not exactly know in every detail as to how it will all turn out—the futures market should exist side by side with that kind of eventuality for the several reasons that come to my mind immediately. For instance, the price projection tool, which is not often considered in a futures market, is one of the largest advantages to the farmer, the one even that is not using the futures market at all. But he is cognizant and has available at least a barometer of what people think will be a futures price in days ahead. That kind of barometer, if you did away with it, might go a long way toward hurting a bargaining position of a farmer. Certainly, if he has to bargain 6 months away or something like that, every tool that you can give him to aid him in his bargaining position is a tool you want to give him.

If, as Dr. Gray says, the eventual result would be a price fixing mechanism, then the future exchanges could not exist in such a situation—well, then, sir, the futures exchanges would probably cease those contracts which it could not maintain, because I think all the evidence is quite clear that without the producers use of those

markets, those markets will not exist. Then they will die a natural death if that were the case. But I doubt that we can predict that kind of result at this time and I think we should let the future exchanges live and coincide with the bargaining price structures and give the farmers those tools that the futures market will still give them until we see how it develops.

Mr. SISK. I do not wish to pursue this too far—and I will terminate my questioning and recognize you in just a moment, Mr. Zwach. But, is it not a fact that a futures operation is available to producers as well as to handlers and processor, though it is almost exclusively used as a tool by the handler. The farmer himself does not per se get involved in futures with very few exceptions.

So of course, the point we are trying to get at here, and I am talking about the farmer who is an individual producer not about agribusiness, is, will futures per se or the operation of the futures market cause that system of joining in a bargaining association to negotiate with the buyer, to break down or be unworkable? You say it will not or that it will work?

Mr. MELAMED. I say it will not. In the first place, I tried to point out that even the producer that is not utilizing the market is cognizant of the price projection that the market offers him as a tool to determine or help him determine as a barometer what the price may be expected to be.

Secondly, with all due respect, the evidence that I have seen and that has been offered here in testimony does not indicate that the producer is not utilizing the futures market.

Perhaps Professor Hieronymus would like to amplify that.

Dr. HIERONYMUS. There is an increasing amount of direct farmer use of the futures markets. It is particularly notable in cattle feeding operations, particularly relatively small cattle feeding operations. It is also true in grains in the Midwest, as I have noted.

But in addition to that, there is a great deal of indirect use of the futures markets by primary producers. I cite as an example the corn blight that occurred. Starting about the first of August 1970, when we became aware of this, there was a very rapid increase in the price of corn, basically from about \$1.25 up to about \$1.60 during the month of August. The open interests in corn went up very greatly and I was intrigued to note that as soon as we got reports on the structures of the open interest, the short hedgers went up in precisely the same proportion as the total of the open interest. And behind the short hedgers were purchasers of actual cash corn by merchants and these purchasers were from farmer producers.

So in that particular circumstance, there were a lot of farmers who sold cash corn at those rising prices, which eventually turned out to be higher than could last through the following spring. So this is a growing kind of use.

Now, to speak and be responsive to your question, so long as collective bargaining by farmers is something that does not include price fixing so that as a result, it actually is a help to prices, it is compatible with futures trading. I think Dr. Powers' point is very well taken that it may well be that a bigger use of the futures market is the only way that you can make collective bargaining having to

do with price work. The other side of this may necessarily have to lay off this financial hazards to the speculative community. So until we get a rather more complete picture of the precise nature of collective bargaining, I do not think we can draw real firm conclusions about the interrelationship of futures trading.

Mr. SISK. Dr. Powers?

Dr. POWERS. I would like to just elaborate on two points, both of them that Tom touched on, one with respect to your point on producer participation. I think this depends to a large extent on the individual commodity you are talking about. I think it depends on the part of the country you come from.

For example, California producers may be less interested in some commodities and participating in them than in some others, even though those commodities are grown in that State. Particularly with respect to cattle, however, and our livestock complex that we have on our exchange, the reports that have been issued by the Commodities Exchange Authority with respect to occupational breakdown shows that producer participation in our cattle market is greater than in any other commodity market listed. So I think from that standpoint, your statement might not be correct with respect to cattle, though with respect to some other commodities, it might be.

With respect to the basic question you asked, to expand only slightly on the statement I made earlier that I think it is not inimical and may actually be complementary in that futures trading would aid in the bargaining, it seems to me that when you look at perishable, continuously produced commodities, like the livestock complex, it is a whole lot easier and you can put on more efficient and effective hedges when you actually have a contractual arrangement in the cash market on the other side of the position that you are taking in the futures market. Your hedges will tend to work out better because of the basis that you are trying to calculate.

Now, I am getting into technical language, but I have worked with one of our major farm organizations in the United States here on a cattle contracting program and when we have sat down to look at the relationship between futures prices and cattle prices for them, how this might fit into their operations, it fits in very well. So I think the two will actually complement each other depending on the commodity. That may not be true in some other commodity, but for a continuously produced perishable commodity like livestock, I think it is.

Mr. SISK. There are many questions I could ask you gentlemen with regard to your specific statements, but I am not going to take further time.

Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

I think if you gentlemen would put yourselves in our places, you know that we must make some very fundamental and important decisions. You are a formidable array of witnesses.

One of the basic things that I have to do is really establish the weight, the validity and the sincerity of testimony in order to make an objective judgment.

I would like first to ask you, Dr. Hieronymus, I have studied your work and been swayed by the logic of your work for many years as a producer. It has not been my privilege to meet you before. But now, in this particular instance, I would like to know more why you are here today giving testimony. You are not speaking for the University of Illinois today—or are you?

Dr. HIERONYMUS. Oh, I am here on the expense account of the Chicago Mercantile Exchange and President Harris of the Mercantile Exchange called me 10 days ago and informed me of the hearings and asked if I would come down and testify.

As I said in my statement, this is an activity that goes very deep into my history.

Mr. ZWACH. They asked you, then, to testify. Are you the legislative representative for them? Are you being remunerated for the testimony you are giving?

Dr. HIERONYMUS. I assume they will honor my expense account. I have not discussed anything else with them.

I might say I did say, well, will you please send down some of the things that have already been said so I do not go over the same old ground. The first knowledge they had of what I was going to say was when I said it.

Mr. ZWACH. If you do not mind, do you personally deal in futures? It will help me make my decision.

Dr. HIERONYMUS. This is a question—as you know, with my background, I have been asked this question many, many times and for strategic reasons, I have tried to evade it. There is a school of thought that says that no one could be as close as I have to certain markets for as many years as I have without being a trader, so that is the predominant opinion; yes. The answer is yes.

Mr. ZWACH. You have made the statement that you felt the elimination of the onion futures has been detrimental to producers of onions. Are you aware of any effort by producers to reestablish futures?

Dr. HIERONYMUS. I have not seen any serious effort; no. I have heard conversation by producers that they would like to.

Mr. ZWACH. I will have a further question for you in a little while. I would like now to go to Dr. Gray.

I am happy to note that you are a graduate of our University of Minnesota. You received your doctorate there and went to another fine university when you left ours. Now, you say in your testimony that you are appearing here in behalf of the New York Mercantile Exchange. Would you elaborate on that, give us the exact facts involved as to your appearance?

Dr. GRAY. It is at their invitation, sir, and they pay all of my expenses for the appearance.

Mr. ZWACH. I think we ought to have that for the record. I appreciate that, because I want to know that, as I have to weigh evidence.

Now, I would like to ask all of you one question, Mr. Chairman. I would like to have you each respond and then I will, for the present, abstain because we have so many people here to testify.

We have had testimony that at least 85 percent of the Maine growers want futures eliminated. The men who make the investment, the men who do the work, the men who sweat, the men who run all the hazards that are peculiar to the business of agriculture—we have had testimony that at least 85 percent of them feel that the futures market is a detriment to them. They would like to see it eliminated. If this is true, and I think our committee should ascertain the veracity of that statement, would you still feel that the futures ought to be imposed upon them even though they felt deeply that they are a detriment to them?

I will start with the fine gentleman here, the chairman of the board of trade, Mr. Melamed.

You see why I am asking this question: I want to know if you still think that this committee, this Congress, should not enact this legislation if it is true that there is almost unanimity with regard to the people that really are the ones behind the gun on this potato business.

Mr. MELAMED. Well, you must recognize that we do not have a Maine potato futures market. Ours is an Idaho market. But with respect to the figure of 85 percent, I think Roger Gray responded to that statistic and he can, I think, answer your question, as the testimony indicated, that figures can be used in a number of ways. We are all familiar with that, that statistics do not prove everything. Certainly Dr. Gray had another view of that statistic that I think he should comment on when he gets a chance.

May I say this, however, that the Honorable Governor of Maine, when he testified this morning, indicated that for some 15 years, I believe he said—I cannot be sure of the exact number of years—there have been attempts at legislation similar to this bill to ban futures trading in potatoes. Now, with all due respect, can't we also draw the inference, just as he was drawing the inference that if over so many years that same attempt has been made, does that attempt not have some merit? I grant him that inference. I also ask can we draw the inference that if over so many years of those attempts, each committee and congressmen sitting thereon over that period of time, when this bill came to them to consider and, as you said, weigh the evidence, that they weighed the evidence and came out in favor of not passing such legislation, should we not draw the inference that the logic called for them over those years overwhelmingly against passing such legislation? Is that same logic not prevailing today, sir?

Mr. ZWACH. You would say, then, even though we might ascertain that a high percentage of them would like to see this legislation passed, you would still feel that for their benefit we should not do it. Can you please answer by yes or no?

Mr. MELAMED. I cannot really answer yes or no, sir. By nature, I am a lawyer, and no lawyer has been able to do that since time immemorial.

Mr. ZWACH. It takes a farmer to do that.

Mr. MELAMED. Well, perhaps. But I will say that our view of the Chicago Mercantile Exchange would answer that view as no, we must

listen to what the farmers want or what the industry practices are and we have attempted to work with them and change our contract and specifications so that it meets their mode of practice. We are in constant discourse with them on this subject.

I think that it requires a great deal of educational attempt as to how to use the futures market and then perhaps you would not have that kind of poll if those figures do indicate what you are saying they indicate.

There is also one other question it poses to me, anyway, as to does anybody make anybody use the futures market if they do not want to? I mean if someone considers that it is a gambling casino and if one is opposed to gambling—I am and I do not go to Las Vegas, either, and nobody makes me go there.

Mr. ZWACH. But even if they did not use it but felt it was harmful and asked us to eliminate it—this could be involved.

But let's go on to the doctor. You remember the question?

Dr. HIERONYMUS. Yes. College professors are also good at equivocating.

I would say if you find that the potato producers overwhelmingly support the legislation, I should still say that it should not be passed. That is why in my testimony, I went back to some of the history of the things that I have done over 20 years and pointed out that 20 years ago, in my home bailiwick, the Midwest, the predominant attitude toward futures trading, then grains only, was pretty negative. And it has changed over time. It would have been a mistake then to, by some kind of poll system of government, have eliminated it.

I also recall that nearly 20 years ago, when I started first writing on the subject that this is a useful thing for farmers and the farmers should understand it and use it, there were administrative eyebrows raised around my university, kind of saying, well, come back from that, and I went ahead doing it.

As I also pointed out, there is nothing to be said for or against potato futures trading that cannot also be said for cattle, hogs, corn, sardines. I really do not think there is any danger or great danger of this kind of thing spreading should this bill pass, but the thought is still there.

Mr. FOLEY. Would the gentleman yield?

Mr. ZWACH. Yes.

Mr. FOLEY. I would like to direct a question to Dr. Powers.

In your testimony, you were pointing out the percentage of the futures market that was held by participants in the potato industry—either producers or others related to the industry. Is that based on volume of trading?

Dr. POWERS. That is based on the open interest—it is based on the studies done by the Commodity Exchange Authority. They have conducted one study every year from 1955 through 1965 and it was based on the open positions at that point in time.

Mr. FOLEY. In other words, it does not include percentage of numbers of people participating, but rather the percentage of their participation in the futures market. I mean if you have a hundred people participating and 60 of them were potato farmers, they might

hold 5 percent of the contracts. What I am asking is, is it based on the numbers without regard to how much they participate or is it in terms of the volume of participation?

Dr. POWERS. No, it is based on the number of contracts.

Mr. FOLEY. Number of contracts?

Dr. POWERS. Contracts that are represented in that open interest.

To respond to Mr. Zwach's question, I think there are two points I would like to make. No. 1, although I do not have a copy of their questionnaire in front of me, I rather suspect—and I remember seeing a copy of a question they asked on one of the polls—it is phrased similar to have you stopped beating your wife. I think you would want to take a look at the questionnaires first to determine the validity of that.

Mr. ZWACH. Which questionnaire are you referring to?

Dr. POWERS. The one that was developed by the people in Maine for the purposes of having their growers vote.

Mr. ZWACH. I am not aware of that questionnaire at all and you may be, but I am not predicating this question on that.

Please answer the question.

Dr. POWERS. I am trying to do that, sir. Nevertheless, the results of, the way the referendum is stated, the results are not independent of the way the referendum is stated. That is my point with respect to that.

The second point is I think you should look at the entire industry and where it is headed structurally rather than simply the farm vote, the farmers or the growers themselves. I think you should look at the entire industry and where it is headed in trying to answer that question.

Mr. ZWACH. Which do you think should be the prime concern, the producer or those who live off the producer?

Dr. POWERS. I think the prime concern is the general society. You cannot separate the prime concern when you are talking about a product such as potatoes or any other product that is so important to consumers, to processors, and to the farmers. I think it has to be a whole question.

Mr. ZWACH. Thank you. Thank you very much.

Now, Dr. Gray?

Dr. GRAY. Thank you, Mr. Zwach.

I have two or three points to make in response to your question. I think I can answer it without hedging.

First, I would remind you of my interpretation of the numbers that I did present in my testimony. We have observed a one-third decline in the number polled since the last hearings and a doubling in the number who favored futures trading. I would suggest that those who use it and use it successfully are properly part of your concern here, too.

Secondly, if I may remind you of my analogy of an old practice that we are told used to exist, when the King would receive bad news from a messenger, he would order the messenger's head cut off and I think that we have this reaction of the growers to the futures market. I think we have a close analogy to that situation. The futures

market is indeed the bearer of bad tidings when it reflects the competitively determined price to a grower who thinks that price is too low. And he says, this is the messenger, let's shoot him.

Mr. ZWACH. Your answer would be that you still think we ought not to pass this legislation even though we might get such an overwhelming number?

Dr. GRAY. Right. And I would ask you whether you think it is fair to shoot the messenger, sir.

The question, even as you phrased it, I think is slightly loaded, Mr. Zwach, in that you asked whether having learned that they felt they did not like it, it should still be inflicted upon them. There are two words of art in there that I would like to examine for just a moment. They may feel that the futures market is not in their interest. I think, sir, that you must ask yourself, have they given you any evidence that it is in any way inimical to their interest. I think that is the key question.

Secondly, I think that then the word that you used, sir, should it nonetheless be inflicted upon them—

Mr. ZWACH. I will withdraw that word.

Dr. GRAY. All right. I simply want to make the point that they are not required to use this market, they are not ever required to look at it if they prefer not to. You will, of course, hear testimony from growers who like it.

Mr. ZWACH. Would you say if they do not look at it or use it, then it will in no way affect them pricewise, benefit them or hurt them?

Dr. GRAY. If they do not look at it or use it, I think it is perfectly neutral to them, that is right.

The question still can be left, sir, of how well one keeps up with the Jones. Their standing in the community might slip a little bit, because the fellow who does look at it and does use it is going to be a little better off. That is not because the futures market will hurt the fellow who did not look at it and did not use it, it is because he did not look at it and did not use it, he hurt himself.

Mr. ZWACH. Thank you very much.

Mr. Watts?

Mr. WATTS. Congressman, I seem to be the only civilian at the table here.

Mr. ZWACH. We weigh carefully, just as carefully, your evidence as the others, you may be sure of that.

Mr. WATTS. I think I represent probably the distributing, merchandising, and the hard work of taking losses on the product that we have in inventory. That is quite distressing. You may not know that. But we have had a warehouse full of merchandise and taken very substantial losses without hedging. So we hedge everything that we store and everything we have in inventory. I think it is to this area of the question that I would like to have your consideration, for the simple reason that I think I spoke before about distribution; there has to be distribution or there is no business. And those of us who are in that business are assuming great risks when we carry inventories. We not only assume great inventory risks, we assume credit risks and we have all the tough work of arguing with unions

that so far producers have not had except in California. But I believe that the other side of the coin must be considered in this.

Now, as for the polls against us, of course, there is an antipathy of people who live in the country—I am just a country boy myself—against people who live in urban populations, in urban centers. But as a matter of fact, without the urban centers, we would need no great industry of farming or agriculture, because everybody would be growing one or two rows of potatoes and living in a grass hut. So I think that you must consider the other facet of the industry, of any agricultural industry, the agribusiness which we have talked about a great deal.

Now, there may be some who do not like it in agribusiness, but generally speaking, I know—I have been in this a long time; I am older than I look, I hope—I think that without this tool, we would be in trouble.

Now, I would like, just looking at the amount, if this is such a burning question up in Maine, why is it that about 50 percent of those polled see fit to vote? If it is such a burning question?

MR. ZWACH. I only know what evidence we have had given to us and I do not know how many of them voted. Was that 85 percent of the growers?

MR. WATTS. No; 81 percent, assumed, of those who voted against us.

MR. SISK. Will the gentleman yield on that very briefly?

MR. ZWACH. Yes.

MR. SISK. The Governor of Maine was here to testify. The Maine legislature unanimously approved this legislation. Now, you gentlemen tell us that they who are subject to election just exactly as we are, as servants of their constituents, that you do not feel they represent an overwhelming position on the part of the Maine growers? You do not mean to intimate anything contrary to that, sir?

MR. WATTS. No; I am not intimating anything like that. I am saying that there is such a thing as a majority—you say a majority of them. I think of those that voted, it ranged from 39 percent to 59 percent of those polled.

Now, it is perfectly all right—I believe in the free elections and all this and that, but after all, there is such a thing as sectionalism in this country, and I hate to see it developing in this case. So that is the reason why I say, as I answered Congressman Zwach, I wanted him to realize that we on the other end of this deal have our hazards and our headaches and we need this tool very badly. It is a very useful tool in helping distribution of potatoes.

MR. ZWACH. I appreciate all of your responses to this question and I know it is helpful.

I yield back the floor, Mr. Chairman.

MR. FOLEY (presiding). Any further questions?

MR. DENHOLM?

MR. DENHOLM. I have never been more impressed with a battery of witnesses than I have with all the gentlemen present today, Mr. Chairman. They have exemplified extreme expertise in an area of, should I say, limited and probably parochial concern.

I am impressed, by their testimony because I cannot imagine why you have come to defend the interests of the producers. I conclude from the testimony of all of you at the witness table believe that somehow, the futures exchange is essential to the marketing system for all commodities in the future of a free competitive marketing system, that is beneficial to potato growers.

Are you not all in agreement on that point?

Mr. WATTS. Yes, sir.

Mr. DENHOLM. And that the producers are wrong because they believe futures trading should be terminated.

Are you all agreed on that?

Dr. GRAY. Yes, sir.

Mr. DENHOLM. I want to ask a question specifically of Dr. Powers.

May I ask you, sir, how long have you been with the Chicago Mercantile Exchange?

Dr. POWERS. Two years and approximately 3 months. I joined them in the week of Christmas of 1969.

Mr. DENHOLM. I presume you are a graduate of South Dakota State University, are you not?

Dr. POWERS. No, I am not, I was a professor of economics at the South Dakota State University. I am a graduate of the University of Wisconsin, a Ph. D. in economics.

Mr. DENHOLM. Were you in research at South Dakota State?

Dr. POWERS. Teaching and research, yes.

Mr. DENHOLM. What year did you leave there?

Dr. POWERS. I left there in 1969, December.

Mr. DENHOLM. How long were you on the staff at S.D.S.U.?

Dr. POWERS. 3 years. I left the graduate school in August 1966, joined the staff there at that time, until 1969.

Mr. DENHOLM. Mr Chairman, the record should show the witness has been identified with one of the leading university systems of the United States.

Dr. POWERS. I have many friends there and I enjoyed the time I was there.

Mr. DENHOLM. Now, I have a question for Dr. Gray. You are learned in economics, do you agree that it is a basic economic truism that if your outgo is greater than your income, your upkeep will be your downfall?

Dr. GRAY. You put that past me pretty rapidly.

Mr. DENHOLM. If the outgo is greater than the income, the upkeep will be the downfall? Is that a true economic theory?

Dr. GRAY. Could I write an answer to that?

[Laughter.]

Mr. DENHOLM. That is the experience of many in agriculture today, particularly for the Maine potato producers if we are to believe any of their testimony. I am concerned about the economic solvency of producers based upon the evidence that has been submitted of record.

There is another contrasting and impressive difference between your testimony and the testimony of producers. That is you have submitted a tremendous amount of evidence that is persuasive in some respects, but most incompetent in other respects. Was the evidence and your testimony assembled as a result of research from departments that are

sharing in Government dollars to public institutions and also to private institutions? I presume that Stanford has some public money, for research or do they?

Dr. GRAY. We do not get any public money in my department. We are funded by foundations. It is all private money and gifts. We would not resist public money if it were offered.

Mr. FOLEY. Let the record so show.

Mr. DENHOLM. Yes, let the record show that you would not refuse and resist public funds at Stanford.

Dr. GRAY. Thank you.

Mr. DENHOLM. Were you hired to come here and testify, Dr. Gray?

Mr. WATTS. May I answer that?

Dr. GRAY. I would just as soon answer it.

Mr. WATTS. Dr. Gray is retained by the New York Mercantile Exchange as our economist. We use Dr. Gray as our economist.

Mr. DENHOLM. Dr. Gray, are you available for other groups to hire?

Dr. GRAY. Yes, I am.

Mr. DENHOLM. Do you have the capacity to assemble the other side of this argument equally as well as you have the argument for futures trading?

Dr. GRAY. I do not know whether I have the capacity. I just do not have the instinct to do it. One of the comfortable things about picking and choosing, sir, whether it is a case in litigation or whether it is a case in public hearings, is that I retain the freedom by being a poor college professor of making these choices according to my own principles. I would be very pleased to work with the Maine potato people, but I would not be pleased to represent for them their viewpoint here today, because I do not share it.

I have been asked on 13 or 14 different occasions to serve as an expert witness in litigation growing out of commodity futures problems and on only four of those have I accepted, either because the party that came to me I felt did not have the right on his side, or for whatever reasons, it did not seem to me that it would help to protect my position of being available to say what I think in these matters to anyone—to the Congress. I have worked with the Commodity Exchange Authority, I have worked for the U.S. Government in my capacity as an expert, I have worked for a bank in Sidney, Australia, in the same capacity. In each of these, I have preserved the opportunity to be able to say what my conclusions are based upon evidence. That is all I am trying to do here. I cannot conclude from the evidence before me that the people who are supporting this bill are right, so I am not going to say that I think they are right.

Mr. DENHOLM. Thank you very much. You are an advocate, then, under some circumstances, but you reserve the right to choose your client; is that right?

Dr. GRAY. Exactly.

Mr. DENHOLM. Have you personally dealt in the futures trading? Are you familiar with the buying and selling of futures?

Dr. GRAY. I am familiar with the buying and selling of futures. Since I first did any consulting, beginning in 1961, for my member firm or any exchange, I have had the rule that I never trade futures.

I had traded futures for another person in 1960 and 1961, the only direct personal experience I had with it. Prior to that time, I had not had involvements with exchanges. There are occasions when I want them to provide me with information which I should not have if I am trading; there are certain times I want to have information from their books which I should not have if I am trading. Therefore, I do not trade.

Mr. DENHOLM. I am interested in the credibility of witnesses that appear before this Committee. I do not question the sincerity of producers who come here at their own expense to testify. I want the record to show that Dr. Gray has been hired by a party in interest to come here and testify today.

May I now ask Dr. Hieronymus, a professor of agricultural economics at the University of Illinois, were you hired to come here and testify today?

Dr. HIERONYMUS. Frankly, I do not know.

Mr. DENHOLM. Are you that anxious to testify, sir, that you do not know whether you are to receive any compensation whatsoever?

Dr. HIERONYMUS. I assume that if I turn in a bill to the Chicago Mercantile Exchange, they will pay it. If they ask me to do it, I will.

Mr. DENHOLM. Do you intend to submit a bill?

Dr. HIERONYMUS. I most probably will, sir.

Mr. DENHOLM. Do you expect to be paid?

Dr. HIERONYMUS. I do.

Mr. DENHOLM. Now, I have some questions for Mr. Watts.

Dr. HIERONYMUS. If I may—

Mr. DENHOLM. Thank you very much.

Mr. Watts, what are the annual gross receipts of the New York Mercantile Exchange?

Mr. WATTS. You mean my company?

Mr. DENHOLM. Yes.

Mr. WATTS. My company is somewhat inactive now. It is mostly in the dairy and poultry products business. My last gross volume was in the neighborhood of \$19 to \$20 million per annum.

Mr. DENHOLM. Do you trade in commodities? What specific commodities does the New York Exchange trade in on the futures?

Mr. WATTS. I trade in no commodities on my exchange, for the simple reason that my position as chairman of the board might be construed that I might favor—in the case of a dispute, in case of something that might happen, I am absolutely neutral I do not trade in any of the commodities on the New York Mercantile Exchange.

Mr. DENHOLM. As chairman of the board, are you familiar with the volume of business for the New York Commodity Exchange?

Mr. WATTS. New York Mercantile Exchange?

Mr. DENHOLM. Yes, the New York Mercantile Exchange.

Mr. WATTS. Yes.

Mr. DENHOLM. What are the annual gross receipts of that firm?

Mr. WATTS. On materials, it runs from 550,000 contracts a year to 335,000 pounds the last year that I saw them. It would be inbetween, a little over 500,000 and over 350,000 pounds.

Mr. DENHOLM. How many people do you employ?

Mr. WATTS. We employ 40 people.

Mr. DENHOLM. Is that the total employed by the New York Mercantile Exchange?

Mr. WATTS. Yes. That is the help. That does not include the maintenance people that we have. We have 15 people in maintenance. And the number of employees we have will vary from 40, sometimes will go up as high as 60. Right now it is 40.

Mr. DENHOLM. Do you subcontract any of your business?

Mr. WATTS. Only to the computer people. We have computers on the premises.

Mr. DENHOLM. Do you know whether or not the firm profits from doing business?

Mr. WATTS. The mercantile exchange?

Mr. DENHOLM. Yes.

Mr. WATTS. It is a nonprofit organization. The only money we have are for the purpose of security of the contracts that we trade in.

Mr. DENHOLM. What percent of your volume does that amount to?

Mr. WATTS. What was that?

Mr. DENHOLM. What percent of your volume would that amount to?

Mr. WATTS. Well, right now, the exchange is operating at a loss and I could not give you the percentage or the volume at all. It depends. If the volume is high, why, of course, the earnings—which are not earnings at all, since this is a nonprofit organization—and if the volume is higher, why, then, we reduce our charges, our clearing charges.

Mr. DENHOLM. How long have you been operating at a loss?

Mr. WATTS. Just last year.

Mr. DENHOLM. How did the firm do the year before?

Mr. WATTS. The year before, there was a little surplus over operational expenses of about \$6,000.

Mr. DENHOLM. What do you do with the surplus?

Mr. WATTS. We spend it when we have a loss.

Mr. DENHOLM. I thought that was just the way farmers operated.

Mr. WATTS. We do that, too.

Mr. DENHOLM. You said you are a nonprofit corporation. Are you a cooperative?

Mr. WATTS. No, it is a membership corporation.

Mr. DENHOLM. Who are the members?

Mr. WATTS. Four hundred and eight members. I think I laid it on the line here. We are composed of farmers, of merchants.

Mr. DENHOLM. How many of your members are farmers?

Mr. WATTS. I could not tell you that. I think we have about 40 memberships in Maine.

Mr. DENHOLM. How many?

Mr. WATTS. Forty.

Mr. DENHOLM. Is that only 40 memberships in Maine?

Mr. WATTS. Yes.

Mr. DENHOLM. Where are the rest of your members?

Mr. WATTS. They are in New York, they are all over the country.

Mr. DENHOLM. How many of them are in New York?

Mr. WATTS. Well, I would say about 200.

Mr. DENHOLM. And about 40 members in Maine. Are they farmers?

Mr. WATTS. Yes. We have them in Long Island, we have them in Illinois, we have them in Idaho.

Mr. DENHOLM. Do they share in the profits of the firm?

Mr. WATTS. There is no profit. This is a nonprofit organization.

Mr. DENHOLM. Well, what do you do with accumulated profits when you finish a year in the black and you have \$6,000 left or \$6 million, whatever it might be?

Mr. WATTS. That is the property of the membership and it is kept as an emergency fund.

Mr. DENHOLM. It is not allocated to the members?

Mr. WATTS. It is not allocated to the members, no.

Mr. DENHOLM. Who decides that?

Mr. WATTS. The board of governors of the mercantile exchange.

Mr. DENHOLM. Are they elected by the membership?

Mr. WATTS. By the membership.

Mr. DENHOLM. Under what State are you organized?

Mr. WATTS. New York.

Mr. DENHOLM. Do you use a bank in your business?

Mr. WATTS. Do I what?

Mr. DENHOLM. What bank do you use in your business?

Mr. WATTS. Banks?

Mr. DENHOLM. Yes.

Mr. WATTS. Yes, we use them all.

Mr. DENHOLM. Where are they located?

Mr. WATTS. New York.

Mr. DENHOLM. Do any of them do business with the farmers or producers of potatoes?

Mr. WATTS. I presume they do. I do not know. I do not know the banker's business.

Mr. DENHOLM. You indicated that you are a country boy. Where are you from, Mr. Watts?

Mr. WATTS. I am a native of Rhode Island.

Mr. DENHOLM. Do you have farm experience?

Mr. WATTS. Yes. There were sailors and farmers.

Mr. DENHOLM. You indicate on page 5 of your testimony that the USDA indicates that if farmers reduced their supplies, they would likely be better off. I think you were quoting from the USDA and you indicated on page 5 that if farmers reduced their supplies, there would likely be a better return to growers.

Mr. WATTS. That is right.

Mr. DENHOLM. I do not know whether you agree with that personally or not. Do you?

Mr. WATTS. Well, I of course agree with most of the things that the Department of Agriculture says but I do have an independent opinion about the conduct of the produce business or any business. And the only argument that I have of the findings of the Department of Agriculture is that I do not think that the use or the consumption of potatoes is inflexible.

Mr. DENHOLM. Well, that is an economic theory, of course. I have studied economics and I have taught economics. Now, is it not true that when prices on farm commodities go down, farmers tend to increase their production to meet essential costs of production?

Mr. WATTS. The Department said so.

Mr. DENHOLM. Is that not what the history has been?

Mr. WATTS. That is what the Department says; yes, sir.

Mr. DENHOLM. And for anybody, whether it is the U.S. Department of Agriculture or an officer of a mercantile exchange, to suggest that if farmers reduce production the price will go up, that is basically sound economic theory, but wholly impracticable, is not?

Mr. WATTS. I do not think that the farmers—I quoted the Department of Agriculture, but I do not think that farmers really chase price by producing more to try to get an income, more of an income by producing more. Sometimes they do, sometimes they do not. I think you will find that we do not have that much difference in production except in the Red River Valley this year.

Mr. DENHOLM. What do you suggest producers will do for income if they do not produce? What other reason are they in the industry, sir?

Mr. WATTS. I do not say that they stop producing. They produce normally. They do not chase production. Some of them may, but I do not think that by and large, all of them do.

Mr. DENHOLM. On the contrary, the record of production indicates that as prices are reduced the farmers increase production to maintain essential gross dollar income to meet their overhead. Otherwise, they could not continue.

Mr. WATTS. I do not know that the increase in production would make prices go down. I do not know which goes first.

Mr. DENHOLM. You are disputing your own testimony if you say that—

Mr. WATTS. No; in my testimony, I quoted USDA.

Mr. DENHOLM. On the next page, you say farmers could help themselves by adjusting their production in line with guides and you say the futures exchange market is one guide they should follow. Do you know how long it takes to grow a crop of potatoes? Can producers adjust production any time between December and May?

Mr. WATTS. No, no; the crop is in.

Mr. DENHOLM. Of course they cannot. Permit please to refer to your testimony. You have taken much time to assemble some statistics. I presume you have prepared your own testimony, did you not?

Mr. WATTS. Yes.

Mr. DENHOLM. You have indicated in your testimony the change in production through the years and that there was price stability during that time. Now, of course, it is impossible for you to answer whether or not those prices would have been exactly the same or would have been better or worse if we had not had a futures exchange operating against the open market price of potatoes during those years. Do you have an opinion on whether or not the futures in potato trading has resulted in a better price to producers?

Mr. WATTS. I think that it has saved producers from sacrificing their crop on occasion because of the indicated value of a futures price. By that I mean that is a consensus of the industry that the price for Maine potatoes is x number of dollars. For example, \$3.50. Well, farmers know that that is—producers should know that that is an indication of what his potatoes are going to be worth delivered in New York in May. In April, it might be 30 cents cheaper.

Mr. DENHOLM. What is significant about the month of May in the actual delivery date on these futures?

Mr. WATTS. There is nothing significant about it. The contract is on November contract. There is then a market, an April contract, and a May contract. It is spread out that way on the advice of our members and our committee in Maine.

Mr. DENHOLM. Can you explain for the record, how a farmer can do what we call hedge against low prices at the time of harvest by using futures?

Mr. WATTS. I do not quite understand your question. At the time of harvest, how he can hedge against low prices at the time of harvest? He can hedge his potatoes in November, in March, and April and May if he so chooses.

For example, he knows about what he would like to get for his potatoes. Not what his heart's desire is; he would like to get \$10. But he knows what is a reasonable value for the potatoes that he has grown. If he sees a good price, why, he would be wise to sell. There is no compulsion for a farmer to use or for a producer to use the futures market.

Mr. DENHOLM. I think Mr. Melamed indicated that if he uses futures trading correctly, it will work to his advantage. Now, can a producer, at the time of planting, by using the futures trading, hedge against a down price at the time of harvest? Now, you are the chairman of the board of directors and I want you to indicate of record how the producer can use the futures trading in potatoes to hedge against low prices on delivery at any future time?

Mr. WATTS. That is a fast one. I do not know. I do not know how he can tell. It is up to him. It is his judgment.

The contracts are opened a year in advance and it is up to the trade, the industry, the distributing factors, the processors, and the producers and/or the shippers. They know about what they can expect for prices and they decide that they want to sell x number of cars at a certain price as a hedge against a decline in the market.

Mr. DENHOLM. May I attempt to clarify the question to you? Can a farmer sell on the futures when the prices are high, regardless of whether he has potatoes to deliver, and ask for an October delivery? Can he write that kind of contract with your firm?

Mr. WATTS. The New York Mercantile Exchange does no—

Mr. DENHOLM. They do not make that contract available to producers?

Mr. WATTS. No, no; he must go to a member of the New York Mercantile Exchange, who is approved as a broker or a trader-broker, who is approved by the Commodity Exchange Authority.

Mr. DENHOLM. Is it possible under your exchange, where you have

400 members, for those 400 members to buy on the market at any given time to influence the price?

Mr. WATTS. What?

Mr. DENHOLM. I am sorry. You testified that you have 400 members on the New York Mercantile Exchange?

Mr. WATTS. That is right.

Mr. DENHOLM. Can they buy in the market?

Mr. WATTS. Yes, if they want.

Mr. DENHOLM. Can any or all of them buy futures?

Mr. WATTS. Anybody in the country can buy it.

Mr. DENHOLM. You have 400 members—can they buy enough in the futures to influence price at any given time?

Mr. WATTS. Well, I do not know whether they can influence price. I know anybody who tries to influence prices winds up behind the 8-ball, if I may use that expression. I know that the effort to influence prices usually results in disaster for the person who is trying to do it. At least, that is my experience over the years.

So far as the public is concerned, anybody, any person in the United States or in Canada or all over the world, can go into the market if they want to. They can buy or they can sell. For every buyer, there is a seller. All they have to do is to call up a broker, call up a commission house, call up any of the Wall Street firms, call up any of their friends who are brokers in Maine or in Chicago or wherever it happens to be.

Mr. DENHOLM. Will you state for the record what causes a shortfall in the market?

Mr. WATTS. Which fall?

Mr. DENHOLM. Shortfall. Is there such a thing as a shortfall in the market?

You do not know what that is?

Mr. WATTS. Shortfall? No, I do not understand your expression.

You mean a decline in the market?

Mr. DENHOLM. Right.

Mr. WATTS. Well, that is brought about by—the law of supply and demand or the consensus of the industry.

Mr. DENHOLM. All right. Thank you.

Mr. Chairman, I have so many questions on this subject that I apologize for the time I have taken, but would you permit me to inquire of the Chicago people along this line?

Mr. FOLEY. Yes, with the caution that we have 15 witnesses waiting to testify.

Mr. DENHOLM. How many members belong to the Chicago Exchange, Mr. Melamed?

Mr. MELAMED. There are 500.

Mr. DENHOLM. How do they obtain memberships?

Mr. MELAMED. Well, they came about when the exchange was organized as a not-for-profit organization in 1919 or something like that.

Mr. DENHOLM. And you have a nonprofit organization, too?

Mr. MELAMED. That is correct.

Mr. DENHOLM. Do you sell membership?

Mr. MELAMED. Pardon me?

Mr. DENHOLM. Do you still sell membership?

Mr. MELAMED. These memberships are on open market, with demand and supply similar to all over the markets. There is a bid price, there is an offer price everyday.

Mr. DENHOLM. And can your members buy and sell in the market, too?

Mr. MELAMED. If they wish—they only own one membership at a time. You mean commodities or the memberships?

Mr. DENHOLM. Memberships?

Mr. MELAMED. Yes.

Mr. DENHOLM. Can they buy commodities in the market?

Mr. MELAMED. Certainly.

Mr. DENHOLM. Is it possible for a few buyers to buy enough in the market to influence price in the Chicago Exchange?

Mr. MELAMED. Well, you cannot buy unless there is a seller, so I do not quite understand. There are not at any given time—for every buyer, there is a seller. I do not really know how to answer your question other than that.

Mr. DENHOLM. Will you indicate if the members do not or they might not?

Mr. MELAMED. Well, the difference being whether a price goes up or down is the feeling whether the buyer wants to reach for a higher price or the seller wants to sell at a lower price and that makes the movement.

Mr. DENHOLM. I am also concerned about futures trading and the movement of livestock because I have a lot of livestock feeders in my congressional district and across the State line in Iowa that are victims of sizable losses on futures trading. You are probably aware of the fact that there are many of them quite disgruntled at the present time because of the closing of the price in December or thereabouts. What happened on that occasion? Could you explain that?

Mr. MELAMED. Not at the moment. I do not quite know exactly what you are referring to so that I could cogently respond.

Mr. DENHOLM. Are you familiar with the term "shortfall"?

Mr. MELAMED. Not as such, sir.

Mr. DENHOLM. What do you call it?

Mr. MELAMED. I think what you mean is a decline in the market or a drop in price?

Mr. DENHOLM. I am talking about an increase in the futures and time when producers cannot deliver. It cost many livestock feeders several thousands of dollars because they could not deliver on the day the market closed and it closed over the contracted delivery price.

Mr. MELAMED. If they bought them, they would not be needing to deliver them, so I did not follow you. If they bought them they are long and they are going to take delivery, rather than deliver. The short is the one that would have to be making the delivery.

Mr. DENHOLM. That is exactly the problem. They could not make the delivery at the time the market closed, and they had to pay in the money. You operate on a nonprofit basis. So who got the money paid on the contracts by the producers?

Mr. MELAMED. Well, wait. The fact that he could not deliver means that he was not hedged with cattle. He was speculating in the market.

In that case, he was wrong if he had to pay a higher price and I am sorry for that. That happens to a lot of us.

Mr. DENHOLM. Are you suggesting that people should not speculate in the futures?

Mr. MELAMED. I am suggesting they should speculate when they know there is a risk involved and there is a loss that they can make. When they speculate, they should know that that is speculating. A lot of people should not be speculating, yes, sir.

Mr. DENHOLM. Mr. Melamed, in a concise statement, how does a producer know when he is attempting to hedge that he is not speculating?

Mr. MELAMED. That depends on his crop. If he has a crop—potatoes, cattle, soybeans, or whatever—and he can make a judgment, being an expert in that particular field that he is in, he is in production of that commodity and crop, how much of that crop he wants to hedge. He should certainly not hedge at any time more than he is producing because then he falls into the line of speculator.

Additionally, he should probably not hedge anywhere near what his total is going to be, because he realizes his crop is not going to come in what he estimated it to be. So his hedge should be a percentage of the crop to insure that percentage to at least a crop.

Mr. DENHOLM. Does any monetary advantage result on any futures market, and if so, does it originate from any source other than from producers? Do you have any other source of income other than from producers?

Mr. MELAMED. Well, the speculators—I mean whoever uses the market. The exchange shop charges something like 25 cents a trade. That comes from any one who is using the market. If there is more use by speculators, then the bulk of the money comes from the speculators.

Mr. DENHOLM. But it is at the producers' expense, is it not?

Mr. MELAMED. I would not think so. I think it is for the benefit of the producer who is using it correctly.

Mr. DENHOLM. You are referring to value judgments and that is argumentative. You are entitled to your opinion but that is a matter that reasonable people can differ on.

Mr. MELAMED. With respect to hedging, that is not really a value judgment; that is cost figures that he cannot figure out, in cattle, for instance, down to the decimal place of what it costs to produce and what a profitable price structure for hedging would then be. That is not a value judgment, that is economics and facts and figures. I think most farmers can figure that out pretty closely to the truth.

Mr. DENHOLM. I understand the whole system of futures exchange. I do not understand how it has increased the efficiency of marketing at all. That is one of the major problems experienced by producers. We know producers have an excellent record of efficiency in production. We also know that efficiency in marketing has not equalled the efficiency of production. I am in doubt that futures trading is of any benefit to producers, particularly as to perishable commodities, and all of you have failed to convince me that futures trading and speculation by a manipulated system operated by nonproducers, contributes anything to the efficiency of marketing of commodities in the interest

of producers. I have asked you forthright questions to ascertain, if possible and in part—what is wrong with the economy of this great country.

Mr. MELAMED. I think I tried to answer as honestly as I could that some of the problems are simply better technology in production, thereby cutting down the need for as many people producing as we used to need. And we are producing at a lower cost structure—I mean at a higher cost structure and thereby producing a less profitable structure overall.

Of course, there are many, many other things that economics can point to, what has happened to the profit structure for the farmer. He has been put into a terrible squeeze between production costs and profits at the end of the line.

Mr. DENHOLM. That is exactly the problem. That is why potato producers are discouraged—if I understand them correctly. I do not have a great number of potato producers in my Congressional District, but when the “cost-price squeeze” continues and the “shoe is pinching” the producers, economically speaking, are concerned about the speculation that is occurring at their expense. I am concerned about whether or not the futures trading in the exchange is contributing anything to our country or to the producers or to the consumers in the efficiency of marketing?

Mr. MELAMED. I agree with your statement up to the point that you tried to add the problem to the solution, because the problem, I agree, is there, with the cost-price squeeze on production and so forth as it relates to profits. That is true. But why this can be solved by doing away with the futures market escapes me in your conclusion.

Mr. DENHOLM. I have not made that conclusion. I am simply saying to you that the facts you have related leaves me in doubt as the material value of futures trading. I want to know from you experts that appear before us today, whether or not you are making any major contribution to the efficiency of marketing and if you are, how are you doing so?

Mr. MELAMED. May I answer that at our exchange, and this is the only one I can answer it for, to some extent, at least.

During the last, probably beginning the decade but certainly during the last 5 years, we have spent literally millions in trying to educate farm groups and associations in the proper use of hedging and of futures markets and in the improper use of it. In fact, we have discouraged speculation where the speculator—which is also a problem, because many speculators, as I pointed out, should not be speculating. I would answer to the farm group in Maine, if I could, that I commiserate with their problem and it is a very real problem. I think they are all very honest in their feeling that something should be done, and something should be done. But I do not think the answer lies in the direction that they are going and I think it is a problem with many ramifications toward which you will not find one simple solution, nor this one.

Mr. DENHOLM. Thank you.

Mr. Chairman, I thank you and the other distinguished members of our committee for permitting me to make this rather extensive inquiry.

Mr. FOLEY. It is a very interesting dialog and I wish we had more time to explore further questions with these very distinguished and knowledgeable witnesses. But unfortunately, there are people in the hearing room who have not testified and the Chair would hope we could conclude their testimony this afternoon. A number of witnesses have indicated their willingness to file their statements for the record, but I would hope to conclude with the actual given testimony before we have to adjourn this afternoon.

Gentlemen, thank you very much. You have made very helpful and informative contributions to the committee's consideration and we appreciate your appearance here, all of you.

Dr. GRAY. Thank you, Mr. Chairman.

Mr. WATTS. Thank you, Mr. Chairman.

Mr. MELAMED. Mr. Chairman, could I make one comment by way of offering to any congressman who wants to see how it operates and ask as many questions as he can, in all seriousness, we would like to provide the facility for answering those questions as honestly as we can. We invite anyone who is interested to the exchange so we can have a discourse and explain or answer and we would be glad to listen to any suggestions.

Thank you.

Mr. FOLEY. Thank you very much.

The next witness will be Mr. Lyle Jordan, farmer from the State of Michigan.

Before you begin, Mr. Jordan, any of the witnesses who are to testify this afternoon are invited and even encouraged, if they wish, to summarize their statements orally, with the assurance that their entire written statement will appear in full in the record.

Off the record.

(Off-the-record discussion.)

STATEMENT OF LYLE JORDAN, FARMER, JACKSON, MICH.

Mr. JORDAN. I am Lyle Jordan. I live on a farm near Jackson, Mich. I have personally been growing and shipping onions for over 30 years. I have been through the period before and after trading in onion futures, and, believe me, I would rather have the futures trading then be without it. I admit that some of the rules needed to be changed, and both the New York and Chicago mercantile exchanges have agreed to a new set of rules which are set forth in the attached petition form which I recently circulated among quite a representative area of onion production in at least seven States and they were received and signed and mailed to some Senators and Representatives in the District of Columbia. I have not pursued this any further for several months, but I intend to because I hear more favorable comments all the time.

These rule changes, incidentally, were patterned to a large degree after the Maine potato contract, which I consider a good contract for the grower.

I have been raising and shipping potatoes off and on for 30 years; also, I have been trading in potato futures for at least 20 years for my own account and operating as an associate broker for 5 or more

years, handling futures business for others; and I cannot understand why any grower would object to the opportunity to hedge his potatoes at a good profitable price which is offered to him at sometime during the marketing season almost every year since I can remember. I can understand why some dealers in potatoes don't like futures trading—this is very easy to figure out.

The growers have many enemies who call themselves friends, but in my opinion, the efficiency of his planting equipment and the dealer, or processor, who helps to encourage acreage by financing and offering contracts which are little more than a small profit even if everything goes well during the growing season, are his biggest problems. In a lot of cases, these same dealers dislike the futures trading and are the real cause behind the objections to futures trading today. Some growers are always looking for a whipping boy and now it is futures trading.

In my opinion, these problems are not futures trading but too many acres planted, and the surplus is just as bad in the varieties that are not traded on the futures market as the varieties that are traded on the futures market, and also in spring and summer crops which are not traded in futures markets at all.

Recently some rhetoric has been made by one onion grower about how happy the onion growers are to be rid of onion futures. Well, in 1970, I had the largest loss per acre in dollars in onion growing I ever had in 30 years because of surplus of supplies, and it would be pretty difficult to blame that in future trading in onions.

During the many years I was president, or on the board of the Michigan, Onion Growers and Michigan Muck Farmers Association and on the Governors Agricultural Advisory Board, I heard objections to futures trading but it seemed as though the objections were nearly always from a dealer or a grower who bought onion futures when he had a storage full at home and lost on both—and I suspicion that these are some of the reasons for the objections to potato futures.

Speculative shorts have been accused of driving markets down, but I don't understand how a speculative short in the market can be accused of depressing the market when he was to be a buyer before the contract expires.

I also think it is disgraceful when a legitimate businessman can be put out of business in this great country. I am wondering what would be next after potatoes—will it be grains? Metals? Live hogs? Live cattle? Meats? If you listen to the objections because of perishability of potatoes or onions, then think of meats.

I believe that if H.R. 7287 is passed, it will be a mistake and some of these same people who are asking for passage now will be asking for repeal in a few years—just like some of us in the onion business are at the present time.

I thank you very much for the opportunity to be heard today, and I want to reemphasize that many of us who are growing onions would welcome a futures market with a contract designed to offer us an opportunity like the Maine potato contract has to offer to the Maine potato grower.

Thank you.

Mr. FOLEY. Thank you very much, Mr. Jordan. As soon as we have heard a few more witnesses, we will proceed with some committee questions.

The next witness will be Mr. George Wilkens of the Minneapolis Grain Exchange.

**STATEMENT OF GEORGE WILKENS, EXECUTIVE VICE PRESIDENT,
MINNEAPOLIS GRAIN EXCHANGE**

Mr. WILKENS. Mr. Chairman, members of the subcommittee, I will respond to your invitation to submit my written statement for the record. You have it. I hope I will not be guilty of more than 2 minutes of your time.

The Minneapolis Grain Exchange board of directors asked that I appear in opposition to this proposal. Fundamentally, We believe freedom of trade is necessary for the advancement of economic welfare of people. That is what is embodied here: Why should it be necessary to impinge upon the rights of free people to engage in legitimate trade and commerce?

There is no question but what organized contracts and organized exchanges make it possible to draw money into the financing of inventories.

Congressman Denholm raised a question on two counts, and I have made notes of those, and I would just like to comment on them. How does a producer hedge profitably or at a favored price? I would like to cite two examples.

You heard reference to the blight in corn last year and there was a price at one time well over \$1.50 a bushel on corn and some farmers made contracts at that time to deliver their 1971 crop. And as later developments proved, that was a very, very sound bargaining decision for them to make through their representative in a contract.

Like today, in our exchange, the farm bureau marketing organization is conducting seminars and one of the points they are emphasizing everyday with farm groups that are at the exchange is that soybeans for November delivery—not yet planted—could be contracted this week and last week in the range of \$3.10 to \$3.12 a bushel. Many a farmer standing at the edge of the pit said, that looks favorable to me and I am going home to contract my crop now for delivery in November.

Now, that is the way farmers do use these markets. It just seems to me in the development and changing of agriculture, there are going to be more and more people, more sophisticated, with greater and greater capital investments, that they are going to use these contract markets in precisely that way. That is what Dr. Hieronymus was pointing to in several of the situations that he referred to here this morning.

Trade helps people and we want to encourage trade, not discourage trade. Always remember, you talk about manipulating price. There can never be a sale in an organized market without both a buyer and a seller. And I would like to emphasize that. It is so easy to look at one side and think just of the seller at a particular situation

if that agrees with your thinking at the time, that the guys ought not to be selling. But every time there is a seller, there is a buyer—always, in every organized exchange. And this is open, competitive bidding, supervised by organized—by a department of the government through these organized exchanges. If there are legitimate charges of manipulation, those certainly should be dealt with severely.

So in summary, I just say permit your citizens to engage in legitimate competitive trade. That is the appeal from the Minneapolis Exchange.

(Prepared statement follows:)

STATEMENT OF GEORGE WILKENS, EXECUTIVE VICE PRESIDENT,
MINNEAPOLIS GRAIN EXCHANGE

My name is George Wilkens and I serve as Executive Vice President of the Minneapolis Grain Exchange. This marketplace has 420 members engaged in grain marketing and processing, and in the marketing of frozen pork bellies. The Exchange was organized in 1881 and has been an important cog in marketing since that time.

MORE TRADE NEEDED

With your permission, may I focus on the issue by asking the question, "Why do we have trade and commerce, both domestic and international?"

My response to that question is, "To improve the standard of living of the citizens of the trading states and countries."

The most casual research proves, beyond doubt, there is a very positive correlation between the amount of trade, and the economic standard of the people. It is my belief, government should encourage expansion of trade, and should avoid measures which could limit or stifle commerce, either domestic or international.

Planning for the future involves "futures contracts" whether they be executed in an organized Commodity Exchange like the Minneapolis Grain Exchange or the New York Mercantile Exchange, or whether it is a contractor building a residence for a newly formed family, or a new structure to house the corporate headquarters. Contracting for goods and services to be delivered in the future permeates every phase of our daily lives.

Yes, it is proper for government to concern itself with rules and regulations that govern trading practices. However, the answer is positively "no" when legislation is offered to prohibit trade.

HEDGING AND FUTURES

Forward contracting through organized exchanges is a system which brings necessary capital into marketing and especially into the financing of inventories.

The professional risk takers, trading in organized Commodity Exchanges, make it possible for financial institutions, including the nation's banks, to participate in the orderly accumulation of inventory used to satisfy consumers' market demands on a day-to-day basis.

Marketing economists at our leading universities support future contract trading because they agree futures contract trading reduces marketing margins, marketing costs.

FREEDOM OF TRADE MUST BE PRESERVED

We live in a changing world. Intelligent, resourceful citizens must retain the right to participate or the right not to participate in the new scheme of things. Nothing exists today which compels individuals to use organized contract markets. However, if there are marketing and merchandising firms who wish to use the futures contract system available through organized exchanges, that service should continue to be available to them. So long as we retain open competition, there is no logical reason why one group should have a law passed, to force others to follow, the marketing procedures they choose.

BOARD OF DIRECTORS RESOLUTION

The Minneapolis Exchange supports open competition and a Resolution approved by the Board of Directors follows. They asked that it be included with the testimony presented by the Minneapolis Grain Exchange.

"The Minneapolis Grain Exchange believes it would be contrary to the spirit of growth of America for Congress to pass a law which would prohibit legitimate trade between its citizens.

"Futures contracts in various forms are essential in most American businesses. These contracts may involve construction of shelter, transportation facilities, accumulation of foodstuffs, or a multitude of other economic endeavors.

"In the past there have been instances when it has been practical and desirable for government to regulate trade. The facts may dictate the need for such regulation in Irish Potato futures contract trading.

"However, it is inconceivable that Congress should find it necessary or desirable to enact a bill to prohibit trading of a commodity in an organized public commodity market."

CONCLUSION

The case against futures trading in Irish Potatoes is not sound, it is not reasonable. If this bill is enacted, it will impinge upon the economic welfare of people. That course of action ought not be pursued.

Our marketing system now has reasonable regulations and economic controls. Within this framework, practical businessmen have brought this nation to a position of economic leadership in the world. Please continue to allow businessmen in America the right of decision. Avoid legislation to prohibit futures trade in Irish Potatoes.

Mr. FOLEY. Thank you very much, sir; if you would like to remain we would like to have the opportunity to ask you some questions.

The next witness will be Mr. John Clagett of the Association of Commodity Exchange Firms, New York City.

Mr. Clagett.

STATEMENT OF JOHN W. CLAGETT, PRESIDENT, ASSOCIATION OF COMMODITY EXCHANGE FIRMS, INC., NEW YORK, N.Y.

Mr. CLAGETT. Mr. Chairman, I would like to read my statement—it is a relatively short statement—if it meets with the pleasure of the committee.

Mr. FOLEY. Fine.

Mr. CLAGETT. Mr. Chairman, members of the committee, I wish to thank you for the opportunity given me to appear before you to make a statement with respect to H.R. 7287. My name is John W. Clagett, and I am president of the Association of Commodity Exchange Firms, Inc., New York.

First, let me furnish you a little background about the Association of Commodity Exchange Firms, Inc., and about myself so that you will be better able to evaluate my remarks—and also so that you will know why the Association of Commodity Exchange Firms, Inc., is interested in this bill.

I have firsthand knowledge of the futures business based upon my years as an official of the Chicago Board of Trade, president of the New York Mercantile Exchange, official in the commodity department of a New York stock exchange firm, which did commodity business and that had offices throughout the country, and later as an official of the Commodity Exchange Authority.

Subsequent to that, I have been and am president of the Association of Commodity Exchange Firms, Inc., an organization devoted to improve economic usefulness and continue high standards of business conduct in a truly giant industry—the commodity futures business. I sincerely hope that this background description will qualify my testimony as being objective, as well as being based on experience in many aspects of futures trading.

The Association of Commodity Exchange Firms, Inc., is a non-profit organization whose members handle a majority of the customers' orders that are executed on the 12 commodity exchanges in this country. Our purpose is to preserve and promote a high standard of ethics in the futures business. We are engaged continuously in educating individuals about commodities, on behalf of the commodity exchanges as well as for member firms.

This tends to insure a high degree of knowledge of exchange rules and to promote intelligent and ethical handling of futures business. We also assist exchanges in establishing self-regulatory rules for the benefit of the public, the member firms, and the exchanges themselves. We prepare and publish accurate and reliable information concerning trading in commodity futures.

This bill which you are considering is a tremendously important bill. It may be considered analogous to another potential hole in our free economic dike, an economic dike which we consider strong and getting healthier each year. To briefly illustrate, our statistics show that in 1968, 9,332,247 futures contracts were executed on the various U.S. exchanges. In 1969, 11,206,685 futures contracts were executed, which was 20.09 percent more contracts than in 1968. In 1970, 13,622,607 futures contracts were executed, which was over 21 percent more than the record preceding year and last year, 1971, 14,563,331 futures contracts were executed, which was approximately 7 percent increase over the preceding alltime record year.

It appears from the 1972 statistics at hand that the volume of trading in futures contracts on the commodity exchanges in the United States will again exceed by a good margin the tremendous volume of trading we have had in the aforementioned previous years. It is estimated that the value of futures contracts traded on the United States exchanges exceeded approximately \$145 billion last year. This growth picture in an industry based on hedging needs is an implied endorsement that the industry must be serving an economic need and is doing so by doing a number of things that are right.

Of course, improper or weak administration or regulatory action on a commodity exchange can hurt all exchanges and some of the people who trade thereon. For this reason, we have recommended and supported stringent and fair-trading rules on the various commodity exchanges and have vigorously supported the very efficient and highly complex regulatory work of the Commodity Exchange Authority. Based on my firsthand knowledge as a former official of the Commodity Exchange Authority, there is no doubt in my mind that if any farmer, handler, or processor of potatoes or a speculator made a complaint to the Commodity Exchange Authority alleging manipulation or other violations of the Commodity Exchange Act on the New York

Mercantile Exchange or any other regulated exchange, the CEA would effectively and efficiently investigate the alleged violation and would be able to not only detect any violation, but would refer all of their findings through the proper channel for proper administrative, civil, or criminal action.

Our association believes that the CEA is not only efficient and effective but unbiased. For this reason, we endorse and applaud the statements of Mr. Alex Caldwell, Administrator, Commodity Exchange Authority, at your last hearing. He advised that the U.S. Department of Agriculture recommended that H.R. 9287 not be enacted. He also said that the problems facing Maine and Idaho potatoes are not to be found in the futures market, but arise from the supply and demand picture of potatoes.

Futures trading furnishes a possible solution to this problem. By having futures trading in potatoes the farmers, handlers, and processors are given an opportunity to hedge, which allows them to secure a good measure of price insurance against major adverse price fluctuations on the potatoes which they will grow, have grown, handle, purchase, or process. This is a very important economic advantage to them when they properly use it. Hedging can be of a significant advantage to the processor of dehydrated potatoes, potato chips, and other potato products, as these processed items are generally sold on a large volume, low markup basis. The price at which a potato processor sells his product must be competitive at the time he makes the sale and at times his profit or loss is guaranteed only by successful hedge programs in the futures market.

During later years, when I was president of the New York Mercantile Exchange, the original home of potato trading, I had innumerable contacts with potato growers in Maine who were both for and against commodity future trading in potatoes. In some instances, I found that farmers who were vehemently opposed to potato futures trading had, in fact, traded on the exchange not as a hedger, but as a speculator.

It appears now that with regard to potato futures trading, history is again repeating itself. No doubt, a number of the people who have testified in behalf of this bill are completely sincere in their support. However, I cannot help but believe that it is wrong to single out and try to abolish futures trading in any one commodity, and then deny these highly beneficial insurance features to potato users while retaining them for users of other agricultural and industrial commodities.

A prime contention that futures trading aggravates price fluctuations cannot stand in face of critical, unbiased examination. The sole example of a futures market being disbanded by Federal legislation refutes such an argument, as well as providing a sound testing environment where a futures market existed and comparisons prior to its introduction and after its departure can be made. I am speaking of onions.

Karl Hobsen's work indicated that during the periods of 1922-41 and 1942-49, when there was no actual onion futures market, the average fluctuation of price about the season's mean was about a 112-

percent change of that mean. During 1949-58, when there was an active futures market in onions, the range of average fluctuation dropped to approximately 31-percent change. After abolition of futures trading, since 1959 and through 1969, price variation about the season's mean rose again and averaged 84 percent. If this legislation regarding potatoes were enacted, I sincerely believe that the farmers, handlers and processors of Maine potatoes would in the long run be damaged the most.

The exchanges furnish another type of market stability. It is because of the concerted efforts of the commodity brokerage firms, the commodity exchanges and the Commodity Exchange Authority, that relatively few irregularities have occurred in futures trading, in spite of the tremendous growth in volume of trading from less than 5 million contracts per year traded before 1960 to well over 14 million contracts traded in 1971, as previously noted.

Gentlemen, futures trading in potatoes, as in other commodities, offers other unique advantages to the producer, handler or processor.

(1) The prices of potatoes are common knowledge, made by open outcry in competitive bidding on the exchange floor. This method of establishing a price over the years has proved much more realistic and fairer, particularly to the producer, than by secret sales on a man-to-man basis of a commodity on a "to arrive" basis.

(2) The New York Mercantile Exchange, as other exchanges, acts as a focal point for the dissemination of statistics, weather data and other information which can be vital to all segments of the potato industry.

(3) This futures market provides an alternate market for the commodity, which in turn increases the liquidity of inventory.

(4) It generally allows such segment of the potato industry to borrow money and finance their operation at more advantageous bank interest rates. Banks and suppliers of fertilizer and seed potatoes often make larger loans and/or at lower interest rates to growers who have hedged their potatoes on the commodity exchange.

In short, commodity futures trading, for many reasons, helps various segments of our economy. I am not alone in this opinion. On the occasion of the Chicago Mercantile Exchange's 50th anniversary, President Nixon sent that exchange a letter which said, in part:

By fostering sound practices in futures trading and by encouraging active trade in an increasing number of commodities you continue to contribute meaningfully to the growth and well-being of American private enterprise and the national economy.

Gentlemen, I was born and raised on a farm a few miles from here, at Potomac, Md., where six generations of my ancestors were born and farmed. At the time that I helped my father with the farming, one of our major concerns was that the supply of livestock and grain would exceed the demand and that as a result the prices at the time of marketing would be low. Often they were much lower than the cost of production. We often heard it said during those years that economic depressions were farm led and farm fed. Because of my farm background, I have a sincere empathy with all farmers and particularly with those that are having difficulty in making ends meet.

In summary, gentlemen, we content that futures trading in potatoes and other commodities is well regulated both by the exchanges and/or the Commodity Exchange Authority. We believe that because of the economic advantages and strength which futures trading gives to all segments of all of the industries which have commodities that are traded on the various commodity exchanges, this bill should not be looked upon favorably by this committee.

We respectfully suggest that favorable action by your committee on this bill is not warranted.

I thank you.

Mr. FOLEY. Thank you very much, Mr. Clagett. If you would like to remain at the witness table, we hope to have an opportunity to question you.

The next witness will be Mr. Fred Donald, banker, First National Bank of Aroostook, Maine.

STATEMENT OF J. FREDERICK DONALD, BANKER, FIRST NATIONAL BANK OF AROOSTOOK, HOULTON, MAINE

Mr. DONALD. Gentlemen, my name is Fred Donald. I live in Houlton, Maine. I am senior vice president, First National Bank of Aroostook.

The First National Bank of Houlton, now the Houlton branch of the First National Bank of Aroostook, has financed the sale of Maine potatoes on the New York Mercantile Exchange since 1952. Total assets of the First National Bank of Aroostook on December 31, 1971, were slightly over \$32 million. It has a loan portfolio of nearly \$18 million. We are the second largest bank in Aroostook County. I am a senior vice president.

My experience in financing the sale of potatoes on the New York Mercantile Exchange has brought to my attention some hazards which, if ignored, will cause trouble and probably financial loss. These hazards are—

- (1) Inability to supply margin when the upward price trend calls for additional margin.
- (2) Inability to deliver the potatoes in grade at delivery date.
- (3) Selling potatoes below cost.

I know of no other hazards in dealing with the New York Mercantile Exchange. Each of these hazards is easily recognizable and presents a small problem in comparison to the tremendous benefit of being able sometimes to sell potatoes at a profit. The farmer should make arrangements with his bank for margin calls. He should not sell more than 40 percent of his estimated U.S. No. 1's and he should know what his cost per barrel is.

A farmer is not obliged to use the New York Mercantile Exchange to sell his potatoes. However, if it is the best market available, he should not be deprived of its use. The New York Mercantile Exchange provides the best market available so often that it is very difficult for me to understand the position of those who wish to close it. The marketing of the 1971 crop, the crop now going to market, is a good example.

The New York Mercantile Exchange has been consistently above the street price. I cannot, for the life of me, see how it is a good thing for the Maine farmer to eliminate his best market. Its continuance will not cure the ills of his industry, but it may give him time to solve these problems himself—the problems of supply and demand.

Gentlemen, although this prepared statement truly expresses my opinion and my point of view, I must admit I did not expect to come down and it is not properly documented. It is an expression of principle.

If I may be permitted—I realized this before I left home and I took a photostatic copy of just one transaction which comes over my desk. It is a typical one. If I may, I will be very brief.

Mr. FOLEY. Please proceed.

Mr. DONALD. This farmer, whose name appears on this sheet, and I will give it to the committee, I knew him, I knew his father before him. They are honest people, have a small farm. This gentleman raises 80 acres of potatoes. On June 10, he came into me and asked if I would finance the sale of some potatoes on the exchange. I asked how, at this stage, the acreage is in doubt, if it does not come out until July, what?

I would like to sell a few. The board looks attractive to me.

I did not argue the point. He only wanted to sell three Novembers. I financed the sale of three Novembers at \$2.25 a hundredweight.

The summer passed, on November 3, we liquidated those three contracts at \$2.67 and he realized very little profit, a matter of \$30 or \$40, something like that.

I did not see him again for several months. On February 7, 1972, he came in again and this time, he was concerned—he is heavily financed by the Farmers Home Administration—his real estate, his crop, his farm machinery. We financed his father, but his working capital is gone, his equity capital gone to a great extent, the Farmers Home Administration had it. But I could finance these potatoes.

On February 7, he sold 15 cars. By that time, we knew approximately what the condition of the crop was and they are as follows: Five March's at \$3.25, five March's at \$2.32, one March at \$3.25, two March's at \$3.26 and two at \$3.27. Those are hundredweight quotations delivered in New York City. Using \$1.40 a hundred as cost to get them down there, which I believe to be adequate, it means roughly \$3.10 a barrel in bulk in Houlton, Maine. That was February 7.

On March 3, he decided to liquidate. He bought four cars at \$2.80, two cars at \$2.74, five cars at \$2.73 and three cars at \$2.74 and—oh, by the way, I forgot to mention the bank put up \$3,750 margin to support these 15 contracts.

We charged him, our bank charge was 8 percent on the amount of money outstanding for the length of time that it was outstanding.

Within a few days after liquidation of these contracts, I received a check from the broker, \$7,010.

Now, this is a small farm, he is not particularly knowledgeable, very honest, a friend of mine—I was a friend of his father's. Now,

he made a net profit of \$3,260, which, to me, is 72 cents a barrel, which improved his position.

Now, gentlemen, the reason I am down here is I do not believe that that transaction was a burden to that gentleman.

Mr. FOLEY. Thank you very much, Mr. Donald.

If you would like to stay at the witness table, we have one further witness. I neglected, unfortunately, to call Mr. Merle Johnston, farmers representative of the New York Mercantile Exchange.

Mr. Johnston, I regret the oversight.

STATEMENT OF MERLE S. JOHNSTON, FARMER, FORT FAIRFIELD, MAINE; AND REPRESENTATIVE OF THE NEW YORK MERCANTILE EXCHANGE

Mr. JOHNSTON. Thank you, Mr. Chairman.

Mr. Chairman and members of the Domestic Marketing and Consumer Relations Committee of the House Agricultural Committee, I am Merle S. Johnston of Fort Fairfield Maine. I am a farmer and have been since graduating from the University of Maine in 1953.

I raise 150 acres of potatoes and 125 acres of peas on a 450-acre farm in Aroostook County. I have been involved in many phases of the Maine agricultural economy over the past 18 years, and I feel that I have a good insight into the Maine potato industry.

I have been in the Maine Legislature and am presently serving as president of the Aroostook Federation of Farmers, a fertilizer corporation located in Caribou, Maine.

I was formerly a potato buyer and shipper for a great many years, shipping approximately 200-400 cars of Maine potatoes to the larger chain stores such as Safeway, Kroeger, Food Fair, and other chains all over the East Coast.

I have been vice chairman of the Maine marketing committee and was a strong advocate of a marketing order for Maine potatoes, which incidentally has been inactive for the past 5 or 6 years at the request of the majority of farmers.

I believed and still do that Maine has got to put a considerably better quality pack of potatoes on the market to compete with the other progressive potato areas such as Idaho, Red River Valley, and Washington State.

When I was doing a fairly large shipping business, I was selling the famous Maine super spud package of potatoes to the trade. These were clean potatoes sized 2½ inches to 3½ inches in mesh bags that I am sure the consumer enjoyed and came back for more.

I also want to say that I am currently working as manager of the Maine information office of the New York Mercantile Exchange in Presque Isle. I am doing this because, first of all, I believe in futures trading for Maine potatoes and use the New York Mercantile Exchange to some degree in my farming operation every year. Second, I accepted this position with the hope that I might be able to help other Maine farmers better understand the principle of using futures trading in their own operation.

I have traveled all over Aroostook County and have visited practically every town and place of business that farmers gather and

have attempted to give information that would make farmers better understand futures trading.

I have written articles for local and State newspapers, have been on radio and have given speeches to civic, farm, and yes, even FFA groups explaining the principle of futures trading. I maintain they all should be using it for price protection.

I believe this year in Maine, more farmers are using the futures market than have for several years.

The New York Mercantile Exchange has sponsored a radio program in Presque Isle, Maine, that comes on the air at 6:30 in the morning and is called potatoes, problems, and people. In an effort to educate the farmer, we have taken futures prices and converted them to FOB prices per cwt. and then to barrel prices which every farmer can understand. As an example, I would like to submit these copies of this radio program as they were presented January 14-18, 1972.

I am certain that many of the farmers who were here in January are using futures and yet they came to Washington for the sake of a free ride that was available. I might add, some who came are no longer farming.

I have very strong reservations about using potato tax funds that I, as a farmer, believe are acquired for a specific purpose and that is for promoting our marketing of Maine potatoes, to create more consumption and widen distribution, and establish a strong research program that will be a benefit for 100% of the Maine farmers. As I pointed out earlier, this is a controversial subject and has two sides to it, therefore, I maintain the opponents from Maine should have the privilege of being able to use some of these tax funds to express their views in Washington.

I believe sincerely that overproduction of potatoes all over the country is our major problem, and that by eliminating futures trading of Maine potatoes it will just take away one of our marketing tools that we need to stay in business in this rapidly changing potato industry.

I believe that judicious use of the mercantile exchange to trade Maine potato futures and good management practices on the farm must be combined to keep the Maine farmer in business.

I have watched this potato industry change very rapidly in the past 20 years and I am sure that it will change a great deal more in the next 20 years. With practically every State in the United States raising potatoes, the Maine potato deal has got to stay abreast of these changes or I am sure the Maine acreage and production will continue to shrink. We are the second largest potato producing State, but other sections are growing fast and could very easily surpass us in the near future.

The New York Mercantile Exchange gives the Maine farmer a chance to obtain sound credit by hedging a portion of his crop against his cost of production. This cost of production varies a great deal from farm to farm due to many factors, but every farmer should be a good enough businessman to know his cost. This is probably a second phase of potato farming that every Maine farmer should know more about. When he has reached a decision as to his investment in

a given year's crop, he should then hedge a portion of his crop to cover these expenses during the summer or fall on the futures market.

Take a 100-acre grower who might raise 50 or 60 cars of potatoes that year, he might hedge 20 cars on the futures market at prices high enough to give him better than his cost of production. Then with careful evaluation of the cash market and the futures market combined, he can market the balance of his crop to give him the desired return on his investment.

With today's investment going up every year, the Maine potato farmer has to be really alert to realize a 10 percent or 15 percent profit on his investment. More and more the business of farming, whether it is just potatoes or more diversified farming, is getting to be an agribusiness on a large scale.

Those who have favored abolition of Maine potato futures trading have expressed the belief that the fluctuation of prices on the exchange has been a detriment to the street price or FOB price of potatoes. I say this past year's market is a realistic answer to this belief.

On September 15, 1971, when every Maine farmer had a crop grown and ready for harvest, the prices on the New York Mercantile cents Exchange were March \$3.85/bbl., April \$4.15/bbl., and May \$5.35/bbl. These prices are realized by taking the prices on the exchange and deducting the freight to New York which is now 93 cents/cwt. I can remember just a few short years ago when the freight rate to New York City was 75 cents or an 18 cent increase or 28 cents/bbl. In just 5 years. But I feel that Maine is still in a lot better position than the Far West in respect to freight rate cost in that California's freight rate is approximately \$3/cwt. to New York markets.

Now, on October 15 after the USDA crop report came out announcing a 7 million cwt. increase over last year, the prices on the exchange dropped to March \$2.95/bbl., April \$3.45/bbl., and May \$4.05/bbl. I maintain that you cannot blame the New York Mercantile Exchange for this drop as it is a natural reaction when people who are buying see these figures they immediately look for cheaper prices.

I would like to point out this past marketing season as a good example of how the mercantile exchange helps the Maine farmer. After prices dropped in October, the board stayed relatively inactive, therefore it had no effect on the cash market which many claim upsets orderly marketing. With the board prices below the cash market, the farmer who had hedged a portion of his crop has two alternatives, he can either lift his hedges and take his profit, add this to the cash price and ship his potatoes early, or he can ship a portion of his crop that he hasn't hedged and hold his hedges for the actual month he sold, either March, April, or May.

In April the futures market led the cash market at times as much as 60 cents/cwt., therefore bringing the cash market along with it. This helped growers considerably because the cash market had remained fairly dull all winter staying around \$2/cwt. to \$2.25/cwt. By the end of April the futures market was still strong and this ulti-

mately made the cash market come to its present price of \$3.25 to \$3.50/cwt. for Maine potatoes. I maintain that without the futures market these prices wouldn't have been reached until farming time when everybody is out on the land planting next year's crop.

Speaking of last year's crop, the Maine farmer had the advantage of hedging his potatoes before he planted them for better than his cost of production. This is why the Maine farmer should be using the exchange rather than trying to eliminate it.

These headlines appeared last year in the trade papers "Too Many Potatoes Again?" The USDA pointed out last spring that the 1971 late summer and fall potato acreage intentions are far in excess of the 9 percent reduction recommended by them in February. With average yields, and believe me the USDA guides are established with the idea that there will be enough potatoes for the country, if these guides are maintained the production from the intended acreage would exceed requirements by a wide margin. This could be expected to result in prices to producers next fall and winter which would be substantially below the cost of production. By using the futures market the Maine farmer could protect himself from these below cost of production prices. I was reading an article the other day in a journal put out by the California potato growers entitled "Dreamers." It read like this:

Most of us would like to go back to the old system of a few years ago—say 1935—when people ate a whopping 142 pounds per person, practically all fresh potatoes. With today's population, this could mean almost unlimited production and at a price you couldn't believe. Perhaps this is an illustration of one of our most serious weaknesses: too many of us are dreaming. Too many of us have our heads in the clouds. Too many of us refuse to face the facts of life. Too many of us have already gone down the drain because all of us failed to face those facts.

So you see, this Maine potato industry needs every tool that is available to them to stay and compete in this highly competitive industry.

The proponents of this bill advocate that the New York Mercantile Exchange prevents early shipping of Maine potatoes. I say that this is not so because we have a November contract and if any farmer wants to move potatoes in November or December, he can lift his hedges and sell on the early cash market.

I think one of the major reasons why Maine can't ship in volume early is because Long Island, New Jersey, Pennsylvania, and others are in the market competing with Maine potatoes at a very distinct freight advantage. They also maintain that price fluctuations hurt or disrupt the cash market. I maintain this can be helpful or harmful according to the supply and demand situation of the current crop today. Fluctuations today are minor as the daily volume of trading is down substantially from a few years ago.

Mr. Chairman, I watched the market situation all over the country this past shipping season and these are some of the headlines that appeared throughout the winter from various potato growing areas.

"USDA Will Buy Onions in New York State" through section 32 funds because growers are experiencing marketing difficulties due to abundant supplies. As you undoubtedly know, Congress passed legis-

lation to eliminate onion futures a few years ago. I wonder if this was the answer to their problem.

"Potato Diversion Asked" unless a diversion program is approved, many growers will be badly hurt and the effect will extend beyond the individual growers to the State's entire potato industry, a spokesman for the Washington potato industry said.

"California Potato Deal Is a Total Disaster" for growers of fresh market potatoes in Kern and southern Tulare Counties, the 1971 marketing season—now about completed—will be remembered as "a total disaster." Paul Franklin of the Kern County Farm Bureau, told the council of California growers that prices received by growers for the current crop "will average well under \$2/cwt." "The most recent cost studies by the University of California show that the grower's break-even point is \$3.23," said Francis Pusateri, executive manager of the Potato Growers Association of California.

"Long Island Spuds Gain in Quality but Price Declines"—on August 14, Long Island growers were receiving \$2.75/cwt. for bulk delivered potatoes grading U.S. No. 1 size A (2 inch minimum) at central packing sheds. On August 21, one week later in the face of slow demand and plentiful supplies in northeastern markets, prices have been on the decline. On Tuesday, Long Island growers were receiving \$2.50/cwt. for bulk delivered potatoes grading U.S. No. 1, size A (2 inch minimum) at central packing sheds. On Wednesday the price dropped another 25 cents to \$2.25/cwt. Local operators claimed this was merely an adjustment to bring prices here in line with those in competing areas. This is a substantial price decline in a week's time and this cannot be attributed to the New York Mercantile Exchange which I am sure Maine growers would blame if this happened in Maine. Now, as to the current situation in respect to futures trading, I want to point out our supply and demand and price structure. On January 11, the USDA Stocks on Hand Report was issued showing a very good disappearance of 25.1 million cwt. of potatoes, but an increase in supplies in the eight Eastern and eight Central States of approximately 3.5 million cwts. over a year ago. The futures prices increased substantially the next day closing up for all months. March closed at \$3.13, up 15 points; April closed at \$3.35, up 17 points; and May closed at \$3.95, up 25 points. I maintain this is the advantage the Maine farmer has over other producing areas. Our current FOB prices are \$1.85/cwt. to \$1.95/cwt. with a very dull market. The board prices converted to FOB prices are for March \$2.23/cwt., April \$2.45/cwt., and May \$3.05/cwt. These prices will keep the Maine farmer from going broke.

Mr. Chairman and members of this subcommittee, I would like to make some comments at this time in regard to my good friend, Mr. Chipman Bull's testimony on January 20. He mentioned the manner in which the poll was conducted in 1970 and stated, and I quote, "No member of the council or any of its officers have had access to the voted ballots and nobody except the attorney knew how any individual grower voted." Now I know that there were several hundred registered letters sent out after the so-called deadline for ballots to be returned which I believe was October 10. My question to Mr. Bull

is—"How did the Maine Potato Council know who to send these registered letters to if they had no access to the ballots?" Also, it is very interesting to note that every year from 1957 to 1970 there were from 500 to 2,000 ballots that were never returned. I wonder, Mr. Chairman, how these farmers would have voted had they returned their ballots?

Now, Mr. Chairman, I would like to comment on Mr. Bull's analysis of the USDA figures that show prices received by Maine farmers averaged higher than prices received by Red River Valley and southern Idaho farmers in 11 out of the last 15 years and for northern Idaho farmers in nine out of the last 13 years. Now, Mr. Bull states that you should subtract some exorbitant loading costs out of these figures to give a different story or picture. I submit to you members the cwt. price for the years of 1956—\$1.21, 1958—\$1.11, and 1961—\$1.14; now subtract the so-called loading charges that Mr. Bull suggests and what do you realize as a net price paid to Maine farmers for his potatoes? 1956—\$1.21—\$.70=\$.51/cwt. or \$.83/bbl., 1958—\$1.11—\$.70 or \$.41 or \$.67/bbl., and 1961—\$1.14—\$.70=\$.44 or \$.72/bbl. I ask you, does this sound logical to you?

Now as to the Idaho situation, I firmly believe that if the Idaho farmers were so adamantly against futures trading that I am sure they would have had a plane load of farmers here on January 20.

Mr. Chairman and members of this committee, I urge you to vote against H.R. 7287 as I believe the Maine farmer needs futures trading to stay in business in this highly competitive potato industry.

Thank you, Mr. Chairman, for allowing me this time to testify before your committee.

Mr. FOLEY. Thank you very much, Mr. Johnston.

Mr. Zwach, do you have any questions of anybody on the panel?

Mr. ZWACH. Very briefly.

Mr. CLAGETT, I am impressed by your long years of experience in this area. You state on page 2 of your testimony that in 1968, there were 9 million futures contracts, in 1969, 11 million-plus; and each year to date, it went up.

Mr. CLAGETT. Yes, sir.

Mr. ZWACH. Now, I suppose these were mainly in agricultural productions, these contracts?

Mr. CLAGETT. I could give you a breakdown if you would like to have that. It would be primarily, though, I can tell you from my own personal knowledge.

Mr. ZWACH. They would be primarily?

Mr. CLAGETT. Primarily in agricultural commodities.

Mr. ZWACH. Was there considerably more profit by all the participants in the trade in each successive year? As the number of contracts grew, profits also grew? Do you have anything on that?

Mr. CLAGETT. Sir, what do you mean by "trade?"

Mr. ZWACH. Number of contracts as they mature.

Mr. CLAGETT. Yes; I understand. Profit by what trade?

Mr. ZWACH. By the contracts that were exercised—I am thinking this way. I think the trade has grown wonderfully. But in 1968, 1969 and 1970, 1971, farm prices have continuously stayed down.

Mr. CLAGETT. Yes.

Mr. ZWACH. The farm net income, until it looks like it might be reversing, has been down. It has not helped, all this growth has not really helped, seemingly, the return to producers. I wonder to what extent it has helped that trading in commodities and contracts.

Mr. CLAGETT. Well, sir, I think it has helped the producers. I think it has helped the farmer as the producer. I think it has helped each segment of the industry that has handled the agricultural commodities from the production to the time it was sold to the consumer.

I also believe, sir, that by hedging in the futures market by various segments of the industry, whether it be the farmer, the handler, the processor, the warehouseman, or who, he can in fact, sir, reduce the spread between the production and the consumption price.

Mr. ZWACH. You are convinced that without this growth and this market, farm situations would be even worse, would that be your assessment of it?

Mr. CLAGETT. Yes, sir; I think it would hurt the farmer if he did not have the opportunity to hedge in the various agricultural commodities that are traded on the various exchanges.

Mr. ZWACH. A certain small percentage of this trading was by producers themselves?

Mr. CLAGETT. Yes, sir.

Mr. ZWACH. That is all, Mr. Chairman, at this time.

Mr. FOLEY. The Chair would like to ask some questions of the witnesses, but I am, again, concerned with trying to finish today. I might just ask one question of Mr. Donald.

I found your testimony interesting, Mr. Donald, on the individual case you cited.

Mr. DONALD. Thank you.

Mr. FOLEY. In your experience with potato growers, have you had trouble with the growers on the other side of the contract?

Mr. DONALD. When they become speculative?

Mr. FOLEY. Do you run into that in your business?

Mr. DONALD. It is a concern of mine in that I frown on it. They have certainly speculative position enough when they put their net worth on the line to raise 100 acres of potatoes. When they become speculative, either to buy on it, if that is what they do, or sell a greater amount than they should safely, I frown on that. It might conceivably affect their credit position.

Mr. FOLEY. I see.

Thank you very much.

Gentlemen, thank you all. As I say, we are under rather pressing time limitations here and all of you made very important and valuable contributions. I hope you will not feel that the lack of questioning from the panel here in any way indicates our lack of interest, but I am the one who has to proceed to get through the hearings and we have 13 additional witnesses to hear from.

Mr. JOHNSTON. Mr. Chairman, some of the group that came from Maine would just as soon turn their testimony in as give it orally. So as you call them, they said they would just as soon do that. Is that all right with you?

Mr. FOLEY. When I say we have 13 more to be heard from, I am counting on assurances I have already had from 18 that they will

submit their statements for the record. Otherwise, we would have 31 more.

Mr. JOHNSTON. Thank you, sir.

Mr. FOLEY. The next witness will be Mr. George McCluskey, farmer, from the State of Maine.

**STATEMENT OF GEORGE McCLUSKEY, POTATO GROWER,
MONTICELLO, MAINE**

Mr. McCLUSKEY. Mr. Chairman, the chamber, and members of the committee, my name is George McCluskey of Monticello, Maine.

I am presently farming with my son on a 600-acre farm which I have farmed all my life. We are currently raising 200 acres of potatoes and 100 acres of oats, with the remaining acreage seeded down until the time comes when the potato business improves. I am a former member of the Maine Potato Commission that administers the potato tax money, which I feel very strongly about. I also am a director of the First National Bank of Aroostook.

I maintain that this tax money should be used for promotion and research of Maine potatoes and not spent to bring 90 farmers to Washington to try and promote legislation to bar any economic activity.

I also buy and ship approximately 200-300 cars of potatoes from local growers and use the futures market to protect my purchases from these growers as well as hedging to protect my increasing production costs.

I can remember back years ago when we sold potatoes to outside buyers who gave us a small deposit per car of from \$100 to \$200 and expected delivery of these potatoes later in the winter months. If the price that the buyer paid for these future potatoes was lower than the current cash market, he always took the potatoes and paid the balance, but if by chance the price he had paid was higher than the current cash market, in many cases the farmer was told to keep the original deposit and also the potatoes. This could leave the farmer with very little money for the potatoes; something like 30 to 60 cents per barrel and an extra amount of potatoes to move at very low prices.

Now, Mr. Chairman, with the New York Mercantile Exchange, we hedge a car or cars on the board and by regulations administered by the Commodity Exchange Authority we are guaranteed that these cars will be accepted by a receiver if properly delivered. These cars have to be inspected by a Federal State inspector who I feel is impartial and one who can't be influenced by a buyer such as may have been the case years ago.

Every year my son and I use the futures market to some degree in our business. We feel very strongly that this has a definite bearing on our credit with the bank as we can show hedges that give us price protection against the currently low potato prices that have prevailed in the potato industry the last few years.

Mr. Chairman and honorable members of this committee, I urge you to vote against H.R. 7287 as the Maine farmer needs futures trading to stay in business successfully.

Mr. FOLEY. Thank you, Mr. McCluskey. We appreciate your statement. If you would like to stay where you are at the witness table, if we have the time, we might come back for a question or two.

The next witness is Mr. Tom Findlen, farmer from the State of Maine.

**STATEMENT OF TOM FINDLEN, FARMER, FORT FAIRFIELD,
AROOSTOOK COUNTY, MAINE**

Mr. Chairman and members of the subcommittee, I am Tom Findlen of Fort Fairfield in Aroostook County, Maine. With my brother Joe, I am engaged in a partnership operation under the name of George P. Findlen and Sons in growing 300 acres of seed and tablestock potatoes.

I began farming some 32 years ago with my late father, George P. Findlen, and farmed with him for 25 years. At that time, my brother came into the partnership and I have farmed with him for 20 years. During that time, I have seen all phases of the potato industry, especially insofar as prices are concerned.

During the 1930's we had only the cash market and, as you know, those were very difficult years. During the 1940's we saw support prices and, of course, during that time we had no need of futures trading. However, as the 1950's approached, and with the loss of support prices, I learned in 1 year why we needed the New York Mercantile Exchange.

In the very early 1950's we had a year where we had 50,000 barrels of potatoes and lost \$1 a barrel on them, or \$50,000. I am happy to say that we haven't had a losing year since, although I quickly point out that in the intervening years we have experienced some small profits. I do believe, however, that the most significant factor contributing to our successes has been the availability of futures trading on the New York Mercantile Exchange.

I had considerable difficulty in convincing my father of the wisdom of futures trading. He was from the old school and couldn't see using it, or wouldn't see using it. Nevertheless, as I assumed the day-to-day management of our operation, I began to use it and have used it effectively, I believe, ever since. I use it strictly as a hedge which, from the grower's viewpoint, is its only legitimate function.

It gives me an opportunity to presell my potatoes and, once I have made such a sale, I know that I am going to receive the selling price regardless of what may happen in the interim, one way or the other.

I look at futures trading as a means of minimizing our risk. I must each year ask myself: How are we going to get all of the money back that we have put into growing and shipping our crop? In addition, how are we going to recover sufficient money with which to meet our real estate mortgage payments for farms and potato storage houses? How are we going to get sufficient moneys back with which to purchase new equipment or to make major repairs of existing equipment? How are we going to recover enough money to get a profit which we should have for taking the risk that we do?

Much of that risk is taken on account of factors beyond our immediate control, such as adverse weather conditions, nationwide over-

production, and the like. How are we going to get enough money back to put some away for our old age and to maintain life insurance and health and accident insurance and to contribute through self-employment taxes for later social security benefits? How are we going to get enough money back to educate our children and to provide our wives, as well as ourselves, with some of the pleasures of life? We are not growing potatoes just for the fun of it. It is a serious business and of necessity should be approached in a serious manner. We must also ask ourselves each year: How or where are we going to market these potatoes and under what conditions of price and risk?

Now, there are several markets for potatoes. Among them we find processors. We find chain stores and other buyers of the fresh product. And we find the speculators on the other end of a futures trade. Now the history of the cash market is such that potatoes have been purchased from growers during the last several years at prices less than the cost of production.

It is my opinion, and I believe the opinion held by the vast majority of knowing people in the industry, that this is not because there is trading of Maine potatoes on the New York Mercantile Exchange, but rather because of a nationwide overabundance of potatoes.

As you know, the yearly consumption of potatoes is, relatively speaking, rather stable or inelastic. Thus, a slight shift in yield one way or the other will cause the cash price of potatoes to fluctuate rather quickly accordingly to reflect that shift in yields. In this particular year, we have had more potatoes than ever before. Overproduction is our problem and there are no two ways about it.

Chain stores do not prebuy their potato requirements. Apparently, they feel that since none of their competition is doing so, they will, in the long run, be better off paying the cash price, from time to time, and not run the risk of ever being too far out of line with the competition. They add the profit increment to the price which they pay and that becomes the price which the consumer pays. Thus, I cannot presell potatoes to the chains which I supply from time to time.

However, a good portion of my potatoes do not go Agway and I would prefer not to be left with average market prices for that remainder. Thus, I look to the New York Mercantile Exchange where I have an opportunity with futures trading to establish in advance an option, which we call a hedge, to sell at a particular price where that price is determined and agreed upon today and delivery is made in the future.

Once I sell a Mercantile contract, I know that I am going to receive that price. There is no way out of it. I know that the party who was the buyer in that contract is going to have to pay that price, and the margin requirements and the maintenance charges assures that both the seller and the buyer will be able to meet their contractual commitments. Neither of us has to worry about the financial condition of the other. The bankruptcy of either party will not leave the other party high and dry.

If, after having made the futures sale, the market conditions are such that there is no advantage in my taking the potatoes off the

board, I simply make delivery, and I am paid the price at which the potatoes were sold in the future's contract. In that respect, it is much the same as if I say to a given buyer today that I will sell potatoes at a given price and deliver them a month from now.

There is one difference, as I pointed out earlier, and that is that in the futures contract I know that I will receive my money because the buyer has to meet the margin and maintenance requirements in order to guarantee the integrity of the contract, while in the non-Mercantile transaction the individual who buys my potatoes today at a determined price and is to take delivery in the future may find that when that future date arrives that the market price has dropped, and more than occasionally, he will try to find a way to avoid the contract. Conversely, the seller, at the time of delivery in the non-Mercantile situation, seeing that the price has risen, might look for an excuse not to deliver the potatoes at the price previously agreed upon.

If, returning to my example, we find that between the time of the sale and the time for delivery market conditions are such that there is an advantage for me to take the potatoes off the board, I may do so by merely buying a Mercantile contract back in the same month for which my sale was made. In doing so, I free my potatoes which were otherwise committed for April delivery and I am, from that point on, free to sell those potatoes wherever I wish and at whatever price I wish.

However, to be a true hedge, they should be bought off the Mercantile and sold on the cash market at the same or nearly the same price at which they were bought off the board. When I sell them at market price I may add that sale price to the paper profit resulting from the Mercantile transaction, and that is truly the final price at which those potatoes were sold, or conversely, if purchased off the board at a price higher than I had sold them for on the board that paper loss must be recovered from the cash price at which I sold the freed potatoes. These are legitimate hedge transactions, and I wish to emphasize that either way I get what I had sold them for in the first place.

Whenever a grower sells a futures contract and buys it back for just the profit and does not then move those potatoes on the cash market, he then and immediately becomes a speculator. I have seen many examples of growers who have done exactly that and who have gone broke. I respect—a legitimate hedge is established where a grower who has sold on the board more or less simultaneously buys back off the board and sells on the market at or close to the same price.

I want to emphasize that there are three markets for potatoes—actually, there are four—processors, fresh market, futures market, and the seed market. Each of these markets reflects the supply of and the demand for potatoes in the same manner. If there is a shortage of potatoes, the street price of potatoes for processors goes up, the fresh market price goes up, and the price of futures goes up.

Conversely, in years of overproduction cheap prices exist in each of these markets. Once in a while factors such as crop reports, disappearance reports, or NFO phantom boats or rumors of a freeze stim-

ulates futures trading to a point where you can get a reasonable price on the Mercantile. An example of this: After the stock on hand report in January of 1972, the May board price went as high as \$4.20 per hundredweight, which is a very good price for potatoes. The reality of the situation, that there was an abundance of potatoes, was finally realized, and the futures prices dropped accordingly. Knowledgeable growers sold potatoes in this period on the board to guarantee themselves a profit.

The cash market is established by the ever-present law of supply and demand. It is stronger by far than the futures Board. The futures market will come to meet the cash market because, in the final analysis, it is the supply of and demand for potatoes that will determine what these potatoes will be bought and sold for.

I am not being facetious at all in giving thanks to the speculators in futures trading. Since I am a firm advocate of futures trading for growers as a hedge, I realize the necessity of having someone on the other end of my contract who is willing to take my risk. He is essential to my hedge transaction, just as a speculator is essential to an investor in a securities transaction.

In closing, may I say that this is my third trip to Washington to speak against abolishing the trading of Maine potatoes on the New York Mercantile Exchange. It has not always been convenient for me to appear here, but futures trading is such a necessary and integral economic tool in my operation that I have felt, and I still feel, strongly that it is essential for me to appear and speak against this proposed legislation. I hope you will agree with me and report the pending bill out of committee as "Ought not to pass."

Thank you very much for giving me the opportunity to speak.

Mr. FOLEY. Thank you very much, Mr. Findlen. We appreciate your testimony. You have given us the viewpoint of what appears to be a rather substantial potato farmer. I understand that the last testimony was about 80 acres was an average in Maine, is that right?

Mr. FINDLEN. It used to be around that, 80 to 100 acres.

Mr. FOLEY. Your operation is considerably larger than most individual operations?

Mr. FINDLEN. My father and, of course, now, I have a brother in it, which is not quite as large when you begin to split it up two ways.

Mr. FOLEY. Thank you very much.

The next witness will be Mr. Myron Turner, also a potato farmer.
Mr. Turner.

STATEMENT OF MYRON TURNER, FARMER, ASHLAND, MAINE

Mr. TURNER. Mr. Chairman and honorable members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. My name is Myron S. (Mike) Turner, from Ashland, Maine. I am currently manager of Sal-Mor Farms, Inc., a cattle feeding operation consisting of 2,000 head of beef cattle, 500 acres of corn, and 500 acres of barley. Formerly, I farmed on my own. I was born and brought up on a farm and in 1960 I bought my father's farm and farmed that in a small way for 5 years, raising 130 acres of potatoes, 60 grain, and a few cattle. As production costs went up and labor got

tighter, I expanded my farming operation to keep efficient and make better use of bigger and more productive farm machinery. I increased to 450 acres of potatoes and 60 acres of sugar bets and used the New York Mercantile Exchange every year to hedge a portion of my crop of potatoes when prices reached a level that was better than my cost of production.

In 1970, I was offered a proposition that I felt I should take and I sold my farming operation to Potato Service Inc. and went to work for them as a farm manager.

I farmed that in a small way. If this bill is killed, I anticipate perhaps going back to my own farm operation.

I raised seed potatoes and sold this seed against prices on the futures market. If, for an example, the March board price was \$2.50/cwt. FOB, I would ask \$2.75/cwt. FOB for my seed potatoes and in most cases I received these prices as the buyer could protect his price by selling on the board if he thought these prices were too high.

The potato business in Aroostook County, Maine, is in serious trouble, and I firmly believe that the Maine farmer has a real advantage over the other potato producing areas by having available the futures market to hedge his crop on against the extremely low potato prices that have prevailed these past few years. He has got to get his head out of the sand and use the mercantile exchange to his advantage. As an example, the following prices were available to the Maine farmer this year—March \$2.45/cwt. FOB, April \$2.65/cwt. FOB, and May \$3.25/cwt. FOB. Now the cash market stayed in the \$1.80/cwt. to \$2.00/cwt. range to March 1. The figures that I have used for the three shipping months average \$2.78/cwt. FOB, and I maintain that every farmer can stay in business and make a profit with these prices. Today the potato business is in keen competition with other fresh fruits and vegetables all winter long and Maine has got to promote and market their product efficiently to get consumers eating more of a better quality fresh potato.

Mr. Chairman and members of the committee, the New York Mercantile Exchange is a valuable marketing tool for the Maine farmer. I urge you not to vote in favor of this bill.

Mr. FOLEY. Thank you very much.

The next witness will be Mr. Stewart Smith, farmer and former president of the Maine Potato Council.

STATEMENT OF STEWART SMITH, FARMER AND FORMER PRESIDENT, MAINE POTATO COUNCIL, EXETER, MAINE

Mr. SMITH. Mr. Chairman, members of the committee and, if you will allow me to indulge in a little speculation, Senator Hathaway—

Mr. HATHAWAY. Thank you.

Mr. SMITH. I am Stewart Smith, a potato farmer from Exeter, Maine. I started farming in 1961 and now grow about 250 acres of potatoes annually. I would like to explain how I have used the futures market to advantage in my own farming operation and why I am opposed to H.R. 7287, as well as discuss some work I did as a graduate student in agricultural economics.

I might not have attempted potato farming if there had not been available some form of forward pricing. In my case I bought the home farm from my grandfather in 1961 and grew potatoes under contract for Snow Flake Canning Co., a local french-fry manufacturer, who used the futures market to establish the contract price. Under this arrangement I contracted my potatoes to this processor at any price I chose on the futures market, adjusted to delivery to the plant, for the month of delivery. The processor would then either sell a similar quantity on the board if he believed the price was going down, pay that price directly to me if he felt the market would rise, or more commonly, he would have already purchased on the futures market and he would sell a similar amount on the futures market when it reached the price I had requested.

To illustrate, suppose that when the March contract was trading \$2.50, which would convert to \$1.60/cwt. FOB bulk at the plant (a 90 cents discount for freight and bagging), the processor felt that this would be a favorable price for him to purchase potatoes in March. He therefore buys a portion of his March requirements at that level, intending to sell that amount at the price the growers request. I feel at the same time that \$2 FOB would be a satisfactory price for the potatoes I deliver to the plant in March. This would convert \$2.90 futures price, adding on the 90 cents difference. I request that price from the processor. When the March contract reaches that price he sells that many future contracts at \$2.90. The net result is that the processor pays \$1.60/cwt. FOB for his potatoes, yet I receive \$2/cwt. FOB for the same potatoes delivered to his plant. This includes his \$1.60 plus the 40 cents gain from the futures market. We're both happy and we haven't had to fight over price. This is one way the futures market has been of benefit to Maine farmers.

A similar method of using futures trading, and one I still employ occasionally, is in the purchasing of seed from another grower. There are times when I want to buy a lot of seed and the seed grower wants to sell that particular lot to me, but we have trouble getting together on price. It usually is because the seed grower thinks the market will be up by the time the seed is delivered, and I feel it will be lower. In this case we use the futures market. We first agree on the price difference between potatoes meeting the mercantile contract delivered New York, and seed potatoes FOB Presque Isle. Then we merely select the prices we each want and give these to the same broker. When the futures market reaches one of the prices, one side of the transaction is completed. The opposite transaction is made when the market moves to the other price.

This method has worked satisfactorily for me when buying seed potatoes. It allows two parties to get together on a transaction without having to haggle over price.

The third way I have used the futures market is the conventional hedging of tablestock potatoes. I have not grown potatoes for the fresh market since 1968, but when I did I hedged part of my anticipated production. If I return to producing tablestock potatoes, I would again use the futures market for hedging purposes.

It is only reasonable that a farmer should know the price he is going to receive on at least part of his production before he invests

in it fully. I might add that several of the farmers in my area growing for the fresh market use the futures market either directly or indirectly. By indirectly, I mean they buy fertilizer on credit pledging part of their potato production, which the dealer in turn hedges. If farm suppliers could not hedge their customers' potatoes, I'm afraid credit terms to the farmer would worsen.

For 2 years during 1966-68, I served as president of the Maine Potato Council. This was at times an uncomfortable position, for although I personally believed the futures market was of benefit to our industry, I nevertheless had to take the Maine Potato Council's position of opposition to futures trading when I was representing the council. This caused me to take a hard look at my own thinking, and I made an effort to reevaluate my position with respect to this issue. While reviewing the arguments opposing futures trading, I found one I thought reasonable and might prove detrimental to the industry. This was the argument that the futures market causes Maine potato shipments to be delayed later into the season. This is a trend that has been developing over the years. Some people have said that it is the futures market that has done this. It seems reasonable that a grower holding potatoes in January would be reluctant to sell at that time if he could see a March or May futures price which was considerably higher than the cash price. Conversely, the smaller the premium of the futures price over the cash price, the less reluctant he would be to ship.

During this period of time I was also doing graduate work in agricultural economics at the University of Connecticut. I had the opportunity to look into this question: Does the futures market have an effect on the rate of shipment of Maine potatoes? I found nothing in a review of the literature to indicate anything had been published on this question. In fact, I am quite surprised that so little has been done on the questions and charges raised by this entire mercantile elimination movement. As far as actual studies proving some of the things that are being charged. I therefore developed my own project.

I tried to determine what effect certain supplies and certain prices have upon the shipment of Maine potatoes. I considered stocks on hand outside Maine, stocks on hand in Maine, Maine shipments to date, cash price in Maine, May board price for the current month, as well as other variables. The study considered the months of December through March for the years 1952-67.

The results were quite startling. The only significant variable for 3 of the 4 months was the stocks on hand outside Maine. In no case was the futures market price significant nor did it increase the coefficient of multiple correlation greatly when added to the regression equation.

One must conclude that in spite of the charges made, the futures market has very little, if any, effect on the rate of shipping of Maine potatoes. I have never summarized the study, but if it would be of benefit to the committee, I would be happy to do so and get it to you.

I would like to make a brief comment on the argument that the futures market depresses cash prices. There has been some work on

this question. Peter Emerson and William Tomek writing in the August 1969 issue of the American Journal of Agricultural Economics conclude that shipping point prices are mainly related to per capita production and not to future prices.

I did some price analysis work on a consulting basis from 1962-65. Building upon work started by Aaron Johnson, now professor of economics at the University of Wisconsin, I developed a prediction model using various seasonal production and stock-on-hand estimates, population data, and processing trends, which explained nearly 95 percent of the Maine cash price, and I did not even consider things like disposable income or other grand type variables. The conclusion from this is that the futures market can affect the cash price only in a very minute way, if at all.

I am confident that if more study were done, the charges against futures trading of potatoes would be found to be lacking. I cannot find any proof that potato futures trading does any real economic harm to the total Maine potato industry. I readily admit it does cause irritation and frustration to some who are in it. The potato industry in Maine and nationally is in a period of hardship. Growers are hurting; some are losing their farms. It is only natural that they strike out at something that is highly visible, yet quite impersonal. The potato futures market fits that description. This striking out is not getting at the root of our problems.

On the other hand, potato futures trading does offer a real economic benefit to those who use it properly. So it seems to me to boil down to this: If futures trading in potatoes is eliminated, no one will gain any real benefits, but some will lose some real benefits. If futures trading in potatoes is continued, a real effort should be made to make the benefits available to anyone in the industry. This will take some sort of education that we have not had before. It is not used widely now because of lack of knowledge or experience in the use of it. This should be helped somehow. I only ask that right prevail.

I thank you, Mr. Chairman, for the opportunity to testify before this committee.

Mr. FOLEY. Thank you, Mr. Smith. We appreciate your statement.

Mr. Zwach, do you have any questions?

Mr. ZWACH. I have no question.

Mr. FOLEY. Apparently, we have no questions of the witnesses. We appreciate your coming and testifying.

Mr. ZWACH. I have some but I am not going to ask them.

Mr. FOLEY. I think Mr. Zwach and I would like to have some opportunity to explore with the witnesses who have testified some of the background of their experience, but again, we are trying to reach a conclusion this afternoon—a conclusion, not a decision.

I think we will, in view of the fact that the committee is not asking very many questions, proceed to take each witness individually. After he has testified, I will inquire if there are any questions of that individual so that any of you who might be trying to arrange to depart from Washington this afternoon will not have to stay unnecessarily long.

The next witness is Mr. Douglas B. Bagnell of Fairhope, Ala.

Off the record for just a moment.

(Off-the-record discussion.)

(The following statements are from witnesses, who, in the interest of time, agreed to file their statements rather than read them:)

STATEMENT OF RICHARD T. KEENAN, FORMER MANAGER OF AROOSTOOK FEDERATION OF FARMERS, CARIBOU, MAINE

Having been associated with the Aroostook potato industry for 8 years, the last 5 as General Manager of the Aroostook Federation of Farmers, a fertilizer, chemical, seed and petroleum supply co-operative, I have definite ideas on the New York Mercantile Exchange.

We, the Federation, along with other companies in the same field, utilized the benefit of the New York Mercantile Exchange to hedge our position for credit. To explain, with the withdrawal of credit by local credit agencies, the supply organizations were called upon to help carry the credit of farmers. To secure our investment that we had to extend, we needed security. Presently in Aroostook County, in many cases, the only form of security some farmers have to offer is their ability to raise potatoes. The supply industry's source of credit needs more than a farmers word, so consequently, we requested a futures contract from either a processor for processing bound potatoes or a bid for a Mercantile contract for Round Whites.

Round White futures contracts are seldom available unless they are in the form of a Mercantile contract or backed by a Mercantile contract. Without these contracts, the industry would be unable to finance many of the small family farmers having Round White potatoes.

Another area in which we utilized the New York Mercantile Exchange was in selling Real Estate that we owned. For a successful grower who felt we had a future, but no cash, we have sold property based on a number of Mercantile spec. cars delivered each year. These cars were then hedged when appropriate.

I feel that if the New York Mercantile Exchange is discontinued, many small farmers and some large growers of Round White potatoes may be put out of business.

Never have raised potatoes to sell, I have never traded a car of potatoes or any other commodity for my personal account.

This testimony is submitted for what I personally feel is for the benefit of the industry. I do not feel the New York Mercantile Exchange is the cause of our problems. It is much deeper than that.

STATEMENT OF DONALD C. EISENSMITH, FORT FAIRFIELD, MAINE

My name is Donld C. Eisensmith, I am President of H. O. Perry & Son Co., a General Insurance Agency, in the Town of Fort Fairfield, Maine. For 22 years I have been in the Insurance Business and our particular agency is predominantly composed of farm clientele.

I wish to testify in favor of keeping the New York Mercantile Exchange for the following reasons:

1. The New York Mercantile Exchange provides a price market for the agency to establish insurance values for potatoes when insuring them in the fall.

2. The Exchange provides a price for actual sales contracts of round white potatoes and is used in the event of a fire loss.

3. I have used the New York Mercantile Exchange by urging farms, when prices are favorable, to hedge part of their crop on the Exchange to cover the mortgage and my indebtedness.

4. This year I have used the New York Mercantile Exchange in a different manner. I have attempted to use the Exchange to collect my insurance account with several farmers. The grower and myself agree on hedging contracts in months of March, April and May and how many to sell. The contracts are put on the Exchange jointly in the name of H. O. Perry & Son Co. and the account grower. H. O. Perry & Son Co. provides money for the hedge and all margin calls. By mutual consent the contract can be lifted from the Exchange but only in the event that an actual shipment is made in our joint names. The re-

moval of the hedge, and/or the profit or loss, will be reflected in the actual shipment at the time of delivery. The mortgagee and the grower have accepted and enjoy the practice of using the Exchange in this manner.

5. Future prices reflected on the New York Mercantile Exchange has considerable effect on potato shipments to market. (Future prices are weighed against present day street prices.)

STATEMENT OF LAWRENCE GOOD, MONTICELLO, MAINE

Mr. Chairman and members of the committee, my name is Lawrence Good. I live and farm in the town of Monticello, Maine. In that town I am in partnership with my son in the growing and shipping of potatoes. We own and operate 300 acres of cultivated cropland and we plant each year approximately 200 acres of potatoes and 100 acres of oats.

We have our own potato storage on track which holds 55000 cwt where we pack and ship our potatoes during the winter months and also buy from local growers. We ship approximately 200 trucks and carlots a year, which means that we buy and package about half of our shipments.

We feel that the Mercantile has been of considerable help to us as a grower. Drought, weather conditions and various trouble factors during the growing season, many times raises a question as to the anticipated yield, and this, more often than not is reflected on the Mercantile Board in higher prices than the national acreage planted seems to warrant. When this happens, and it does almost every year, we usually hedge 20% of our crop by harvest time. As producers and sellers, the more places we have to sell and more time to choose some of the peaks helps us to market our crop to better advantage. The Mercantile is one medium where we can sell instantly and spread the sale of the crop over the year.

We do use the Board to some extent when buying potatoes and it has been most helpful. The opportunity the futures market offers to protect a sizable purchase against an unexpected drop in the actual market, makes it possible to pay a grower more for his potatoes, as the risk is less.

Both as grower and shipper I would feel more vulnerable without its support.

STATEMENT OF GERALD ELLIS, POTATO BUYER AND SHIPPER FOR A. E. MOOERS COMPANY, INC., OF HOULTON, MAINE

Mr. Chairman and Honorable members of the Subcommittee on Domestic Marketing and the House Committee on Agriculture, I am Gerald Ellis, potato buyer and shipper employed by A. E. Mooers Company, Inc. of Houlton, Maine. I have been employed for six years in this capacity, and I wish to tell you I am strongly opposed to H. R. 7287 and wish to see futures trading of our potatoes continued without interruption.

A. E. Mooers Company, Inc., as well as being buyer and shipper of potatoes, also for many years has been a clearing house member of the New York Mercantile Exchange. For the past six years I have been in an excellent position to see all aspects of the potato market from the purchase and sale of fresh potatoes to the sale and delivery of futures contracts through the mercantile exchange. I have seen both "good" and "bad" potato years and have had an opportunity to see various farmers and observe how they use both the fresh market and the futures contracts in their business. I would say that almost without exception there are farmers in both the "good" and "bad" years who make a profit in their business regardless of what the fluctuations of price are during any given potato year. These farmers are invariably the ones who sell a portion of their crop through the mercantile exchange for future delivery at times when they consider the price to be at a level sufficiently high so that they might assure themselves of a profit. The farmer who appears to lose money year after year, even in years where at various times the sales price is well above their cost of production, is generally a farmer who does not take advantage of high prices offered in future contracts. It is generally the farmer who had little or no business background and merely hangs onto his potatoes from late fall until May or June with the gambler's hope that prices will be

unrealistically high at that moment in history. It has been my observaion that a great percentage of those individuals who actually openly oppose the mercantile and futures trading actually use futures tradings at various times during the year. A great many farmers, however, do not understand the concept of futures trading and are either incapable of comprehending the concept or simply too stubborn to attempt to try to. It has been my experience in viewing futures prices that any price fluctuation caused by speculation usually results during the year in higher prices than supply and demand would warrant under the circumstances. This is due mainly to the rather normal phenomenon caused by ordinary speculators buying the commodity rather than "selling short."

I sincerely feel that the majority of the individuals who locally oppose the futures trading actually want to make the New York Mercantile Exchange a whipping boy for the bad marketing conditions for Maine potatoes. These farmers want to blame something other than their own incompetence for personal busines failures. The smart farmer who uses futures trading is not in financial trouble in the State of Maine and makes a profit year after year. The Maine Potato Counsel, who year after year has been so strong in advocating eliminating futures trading, might better use the money spent to either educate the farmers in how to best use future trading or show the smaller ineffectual growers how to both produce and market their potatoes better. If it is not obvious to you gentlemen, it certainly would be obvious to your wives that the problem with the Maine potato industry is in the marketplace and not in the mercantile exchange. There certainly are good growers and shippers, but the housewife's opinion of Maine potatoes has been well earned over the past several years in that they are taking "pot luck" whenever they grab a bag of Maine potatoes in the store rather than a bag of Idaho potatoes, whose quality is under much better control.

I have noticed in the last few years an increase in the use of futures commodities by farmers and fertilizer companies using this method for crop financing without the farmer having to go to his local bank or to the Farmers Home Administration for crop loans in order to help finance planting the crop. The fertilizer company on behalf of the farmer merely sells at some particular time that is deemed advantageous to both parties with a sufficient number of carloads on the futures market in order to guarantee payment.

Futures trading enables the farmer to at any time during the year to sell some or all his crop at one time rather than to have to wait for the whim of a buyer in one of the large metropolitan areas. If futures trading does nothing more, it at least gives the farmer another choice in the marketing of his crop.

STATEMENT OF BRIAN KETCHUM, POTATO DEALER, MARS HILL, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Brian Ketchum, a potato dealer in Mars Hill, Maine. I have been a potato dealer for 10 years, the last 6 years I have spent operating my own potato sales agency. I have been a director of the Maine Potato Council and past president of the Maine Potato Sales Assoc.

In the Maine potato marketing system, I perform the role of a shipping-point buyer. I purchase potatoes from growers, FOB, (all graded and packaged) and resell them to terminal-market buyers, chain stores, processors, seed receivers, and whatever other outlets I can uncover.

Since being in business, a number of growers have become dependent upon me to market all or part of their crop. In turn, I have become dependent on them for a large percentage of my supplies. This mutual dependency has turned thes growers and myself into a loosely knit but viable working unit.

My office performs a number of services for these growers. The value of these services is dependent on my having access to a potato futures market. For example, I supply seed, fertilizer, spray material, cash financing and machinery to these growers. The grower pays for these services by contracting potatoes for delivery to me at a later date. In turn, I use the potato futures market to hedge my contracts. There are occasions when the contract price will be higher than the potato futures market. Therefore, a profitable hedge cannot always be placed at the time the contracts are made. However, it can be expected that

sometime during the season there will be ample speculation to fluctuate the futures market to where a profitable hedge can be placed.

Without a potato futures market, I cannot continue to contract potatoes at the same price levels as in the past. In order to get the protection I need, it must come in the form of lower priced contracts to the grower.

It is good business for any farmer to hedge potatoes on the futures market when he can sell at a profit. Any grower that markets through my office can hedge potatoes. I have made various agreements with the local lending institutions so I can provide hedging services to any of these growers.

I am not qualified to debate the theoretical aspects of potato futures trading. However, I feel qualified to state the practical and monetary value of a potato futures market. Three such statements are listed below:

1. Many of the growers I work with are still farming only because they have taken advantage of profitable hedging opportunities.

2. Use of potato futures trading has helped build my office into a successful business.

3. By using the New York Mercantile Exchange, I am able to perform services for the growers at prices they can afford.

Based on the previous statements, I have found the potato futures market to be an advantage to both the growers and myself.

The State of Maine is losing potato growers at an alarming rate. Eliminating potato futures trading will not alter this situation. Banning potato futures will result in removing one very important tool the grower has to guarantee himself a profit.

STATEMENT OF JOHN FINDLEN, POTATO GROWER, FORT FAIRFIELD, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am John Findlen, a potato grower in Fort Fairfield, Maine. I have farmed for 18 years and have used the New York Mercantile Exchange to hedge my crop effectively.

I use the Exchange for price protection with the full realization that there is still some risk involved. Nevertheless, future prices generally moved in the same direction as the price for the actual cash commodity involved. This is the axiom on which the hedging rests. In either market, the price direction will generally be the same, although the size of the price moves may differ. This difference still leaves the hedger with some risk—just like the businessman with his fire insurance that may not pay the full replacement cost when a building burns. But this same difference also gives the hedger an extra opportunity. At times he may realize an "extra profit" on his operations by using futures.

I have operated the home farm for 18 years and my father before me for 35 years. Today larger buyers are concentrated in smaller groups, thus they have a tendency to dictate price. The New York Mercantile Exchange is the only avenue open for a free market to operate. Thus "The Truth in pricing." If this market is ever closed, then the farmer would lose his choice of selling to the cash versus future. When this happens, he would lose not only his freedom of choice, but his price advantage of competition.

Over one hundred years ago, Oliver Wendell Holmes wrote, "I find the greatest thing in this world is not so much where we stand, as in what direction we are moving. We must sail sometimes with the wind and sometimes against it. But we must sail, and not drift, nor lie at anchor." This is true today, as it was then, even more so.

It is unfortunate that so many today are unwilling to appraise their own situations and realistically take complete inventory of themselves as to whether they are moving ahead, falling behind, or just drifting aimlessly.

So it is with the Mercantile Exchange. One must not be apprehensive about getting himself out of old routines, ruts or the like. It is only when we open up our minds to new and "fresh" ideas that real satisfaction and accomplishment will be both felt and recognized.

It is essential to set ones course by the basic principles and standards which are the guide to good trading, good business management and worthwhile achievement.

I feel the Exchange should evaluate their rules and see if they are going forward or aft. For example, why not cease trading March on the last day of

February so that deliveries could be made thru the month of March. Potatoes could be "ex-pit" traded 10 to 15 days before the close of the trading of the near term month. Proper markups could be established. For example, 20 —\$1 cwt.; 10 —\$1.40 cwt.; 5 —\$2 cwt.; plus \$.30 cwt. for washing and \$.25 cwt. for additional sizing.

I would much rather sell potatoes on the futures market than to sell futures on the cash market. By selling the futures or hedging, then lifting my hedge and selling the cash, the buyer has bought the daily market and is happy. The speculator has taken all the risk.

STATEMENT OF MELFORD SJOSTEDT, STOCKHOLM, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Melford Sjostedt, a potato farmer in Stockholm, Maine. I have been a potato producer for 30 years and I now farm 75 acres.

I feel that the Mercantile has a place in a potato farming operation.

When the board price is up to cost of production or better, a farmer has the privilege of hedging a portion or all of his crop against future fluctuations. Except for the processor, where you contract 6 to 12 months in advance, this is the only place a table-stock producer can go to sell 5, 10, or 20 cars for future delivery.

Although many cars are traded on the board, there is a small percentage that are delivered. However, if you do make deliveries, you receive a check by return mail when the potatoes are accepted. In most cases, selling to the trade you wait up to 30 days and sometimes longer.

In the past 2 months we have had a good example where the board could be beneficial to the farmer. Prices have been from \$.50 to \$1.25 cwt. above the cash market for future deliveries.

With the over-supply of potatoes the government says we have a hedge on the board that could mean the difference between staying in business or suffering a large loss. The cash market would have to improve considerably within the next 2 months to reflate this argument.

STATEMENT OF PETER JOHNSTON, POTATO GROWER, FORT FAIRFIELD, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Peter Johnston, a potato grower from Fort Fairfield, Maine. I raise 240 acres of potatoes as well as peas and grain.

I have been farming my father-in-law's farm and have been using the futures market. In my 4 years in marketing the crop, I have used the futures exchange. In the previous years, my father-in-law used the New York Mercantile Exchange extensively in marketing his crops. I feel this was and is a smart business practice.

I am presently an Agway Cooperative grower and raise foundation and certified seed exclusively. It has been my experience that Agway takes 60% of the total production; the balance of 40% I market myself as table stock. In order to obtain a profitable price for these potatoes, I hedge them on the New York Mercantile Exchange for prices substantially better than current cash prices and better than my cost of production every year.

In my opinion, the depressed prices that exist in the potato market today and have existed over the past few years cannot be attributed to the future market and so I urge this Committee to vote against H. R. 7287 as I feel the Maine farmer needs this marketing device to keep them in business and help assure better returns on their potatoes.

STATEMENT OF ROGER A. MELVIN, POTATO GROWER, MONTICELLO, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture:

I fully believe that future trading of Maine potatoes on the New York Mercantile Exchange should be continued. Going back somewhat in time, the

only form of speculation that benefited Maine potato farmers were buyers from out of state markets. They would come into the state and purchase by the lot, therefore creating a demand through that form of speculation. That form of purchasing potatoes has long become obsolete. It has been replaced by a more effective method, the Mercantile Exchange. This exchange has given both the buyer and seller, regardless of size or volume of their business, an equal opportunity to trade potatoes. It is also my belief that with the daily report of the Exchange through brokers offices, radio, newspapers and television, the entire spectrum of the trading of Maine potatoes has broadened enormously, creating more speculation than we have ever experienced, consequently increasing demand and we cannot have demand without speculation.

STATEMENT OF ROBERT R. MICHAUD, GRAND ISLE, MAINE

Mr. Chairman and honorable members, I am Robert R. Michaud of Grand Isle, Maine, a farm equipment dealer very much opposed to HR 7287 presently pending before you. I am of agricultural background, and have been a resident of Grand Isle, Maine for the entirety of my business career. In addition to dealing in farm equipment, I operate and own a general supply store which caters to most of our area agricultural needs. I have personally been involved in growing, although I am still a potato dealer and merchant.

I am opposed to HR 7287 because it would abolish the New York Mercantile Exchange with reference to its involvement with potatoes. I favor the Mercantile because I feel it is a valuable tool which, when properly used by farmers, provides safe, dependable, and profitable hedging and covering of future expenses by future sales at certain profitable prices. The Mercantile is there, and is being used by farmers in Aroostook County to a limited extent to protect the payment of certain expenses to be incurred in the future in growing a potato crop by future selling at prices at least equal to, if not above, the actual cost of production.

There have been many abuses of the Mercantile, and these abuses are brought about not by the Mercantile, but by the people who use it, and use it improperly. The Mercantile is designed to be a tool to protect the farmer. It can be used by speculators, and speculators do admittedly use it with a fair degree of success, because they are professionals in the trading on futures markets, and because their business is that of investing and speculating. As long as speculators do the speculating on the Mercantile, no farmers will be hurt. The problem arises, however, when farmers attempt to follow their natural instinct to make an easy dollar by engaging in speculating activities when they know not enough about the operations of the futures markets. The result is historically documented as farmer money loss and sometimes farmer ruin. Again, I say this is because the Mercantile is being misused by a farmer who tries to speculate, and this is no fault of the Mercantile.

In addition to being a valuable hedging tool and protection for the farmer, the Mercantile is now one of the very few remaining marketing tools for fresh potatoes. The economy of the potato industry has significantly changed in the last ten to fifteen years. Processing trends are evident and prominent. A removal of the Mercantile at this time would accentuate the trend toward processing control of the potato market, and this to my mind would be undesirable since the farmer should have the option to process or sell on the fresh market and use the Mercantile as a tool, whichever he feels best suits his needs and desires.

In summary, let me state that I am in favor of the New York Mercantile Exchange with reference to its handling of potato futures, in particular, Maine potato futures. I am against present bill HR 7287 for the above reasons. I appreciate your consideration of my thoughts in this letter, and invite any inquiry or requests for substantiation of my position at any time.

STATEMENT OF RALPH G. SMITH, POTATO GROWER, CORINNA, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture, I am Ralph G. Smith, a

potato farmer from Corinna, Maine. I have been a potato farmer for 25 years and now grow approximately 200 acres per year.

I would like to tell you why I oppose H. R. 7287 and why futures trading of Maine potatoes should be continued.

Futures trading, in my opinion, when used for price hedging is a very valuable implement for the Maine potato grower. It is the only method, aside from growing contracts, which may assure the farmer of a fair price for his crop. It is true that the price is not always to the grower's satisfaction, but it is also true that this is a voluntary program and need not and should not be used when the price is not satisfactory to the potato farmer.

It has been said that futures trading interferes with orderly marketing of the potato crop. Certainly for my farm operation this is not true. Normally we start shipping potatoes in November and continue at about a carload a day until the crop has been moved. We do this whether or not we have hedged on the board.

In my opinion, whenever a valuable implement is made unavailable, or otherwise removed, the bargaining position of the group involved becomes that much more difficult. I maintain that the potato farmers financial position is already bad enough. Why make it worse? If the energy and the potato tax money which has been wasted on this effort had been applied to honest merchandising of the potato crop, the Maine potato industry would be well on its way to recovery.

STATEMENT OF CLIFFORD MICHAUD, POTATO GROWER, VAN BUREN, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Clifford Michaud, a potato grower of Van Buren, Maine. I have been a potato grower in the Aroostook County for 22 years. I grow an average of 80 to 100 acres.

Nearly every fall I sell a few cars of potatoes on the Mercantile, which I consider a good protection as far as getting a fair price for my crops.

Since it has helped me, I would advise other farmers to use this system more often. Not only is it a sure way of disposing of your potatoes when there is no other way to sell them, but the prices are satisfactory. I am satisfied and hope that the Mercantile will continue to operate in the future.

Mr. Chairman and Members of this Committee, I urge you to vote against H. R. 7287.

STATEMENT OF AL JEWEL, POTATO GROWER AND SHIPPER, MONTICELLO, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Al Jewel, a partner with my brother, Leon, of Monticello, Maine.

We raise and ship over 200 acres of potatoes annually. The present city markets purchasing policies do not allow a farmer a hedging program. Without a potato futures market as operated by the New York Mercantile Exchange, farmers would not have an opportunity to sell a portion of his crop as an insurance against price decline.

The New York Mercantile Exchange offers the public trader an opportunity to speculate and the potato grower, dealer, processor a chance to hedge his commodity. This is all done under the supervision of the USDA Commodity Exchange Authority.

I feel that potato futures trading is of great benefit to our company and all Maine potato growers, therefore, I am opposed to H. R. 7287 and wish to see futures trading on our potatoes continued.

Mr. FOLEY. Now we will hear Mr. Bagnell.

STATEMENT OF DOUGLAS B. BAGNELL, FAIRHOPE ALA.

Mr. BAGNELL. Mr. Chairman, members of the subcommittee, I had not expected to get here right at this moment, but I will proceed.

I am appearing in behalf of the Maine Potato Council. This is my third appearance before this committee and predecessor committees in the House. I have appeared twice in the Senate. I intend to make all of this quick.

A quick resume of why I am qualified to appear: I have been connected with the commodities futures industry for approximately 42 years. I made the first survey that was ever made of corn futures on the Chicago Board of Trade in 1931. I worked for the Chicago Board of Trade, was instrumental in setting up what they called a business conduct committee, which is a self-policing organization designed to assure equitable proceedings on the exchanges. I have participated in the investigation of some 150 docket cases; those are cases involving apparent violations of the Commodity Exchange Act. This involved detailed examinations of the records of the majority of futures commission merchants in the United States.

It involved meetings with exchange committees, congressional committees, grand juries, criminal and civil proceedings, and administrative actions. Some of these are not particularly pleasant to look back on. I have put one or two people in jail, which I do not think was very satisfying as an occupation.

I am a certified public accountant. I would like to deviate for just a second here. Some people have surprised me greatly. Two or three times today, I have heard suggestions that the polls that were taken in Maine were inaccurate—perhaps I should say phoney. To me, those polls were remarkably precise. The return of some 80 percent in some instances was much greater than would normally be expected in that sort of poll. I think that this animosity on the part of the Maine farmers is very important for this committee to consider, and it would be my attempt to explain why some of this animosity exists.

First, I would like to say that there is a tremendous variation in commodity markets in my opinion. I notice that the expert testimony that we have heard now and that we have heard over the years has been in strong endorsement of futures trading. But it has skirted all the way around the possibility that futures trading in potatoes may be different from that in soybeans, corn, oats, rye, and what have you.

Now, I think there is a good reason for that soft-peddling, or the difference. To me, there is a difference. There is nothing derogatory about it. Potatoes are traded on an annual game. The last hand is dealt in May of every year. The people who are in the market prior to that time have got to get out. And that results in a congested situation.

Do you gentlemen have copies of this statement?

Mr. FOLEY. Yes; I think we all have copies of your statement.

Mr. BAGNELL. On about the fourth page there is a chart called "Maine Potato Futures Contracts." You will note on that chart a series of more or less perpendicular lines for every year from 1951 to 1962. You might say that is going back a little far but I assure you the same thing still exists. The market comes to its climax in March, April, and May. That is when the action is. That is when the prices move and that is what brings people into the market.

I do not think we should make any mistake about the fact that a successful futures market is successful financially in direct proportion to the volume of trade that it attracts.

Now, farmers, on the other hand, I think generally prefer or would prefer a more or less stable market. There is no farmer stupid enough to think that he is going to have complete stability. He is going to speculate. But when he has to add to his normal speculation, which is weather, insects, and what have you—when he has to add to that how acute an effect a rumor from Florida this morning is going to have—the wire comes out and says frost in Hastings today—well, the market takes a big jump. A lot of people come in and there is a nice commission return.

About midmorning, another flash comes. The frost did not materialize and the market drops again.

Now, that is just fine for the wire house. In fact, it is the life blood of speculation. If the commodity behind this is one that you can keep like wheat—I guess you can still plant wheat from King Tut's tomb—that is all right. But this is now happening in May and it has to come to a close right here and now. The result is that it causes these price movements that you see there. These price movements, in turn, bring in the retired dentist from St. Petersburg, Fla., who thinks the market is going up today and the housewife out in Salt Lake City who has caked a little money out of the sugar jar and she thinks it is going down.

Now, somebody has mentioned several times that every buyer has a seller. That is pretty obvious. But that does not mean that you cannot manipulate a futures market. Just because somebody buys and there has to be somebody to sell does not mean that they are going to be just exactly equalized in pricing—it has to.

But to go back to one illustration that is such a classic, in my mind at least. Some years ago, a group decided that they were going to corner the potato market. They had a very aggressive manager and he persuaded the top management to let him put on this thing which was going to make him the hero of the century. So they started to corner the potato market and had not gotten very far into it until they just decided there were too many potatoes to corner.

So this guy was pretty smart and quick on his feet. He said, well, if we cannot corner it, let's knock it down. So they began to sell potatoes and they shipped—well, I am not sure whether they shipped or not. They wired the Department of Agriculture in Washington to have 400 cars—to have 400 inspectors in the Arlington yards to inspect this great big bunch of cars that they were going to ship down from New York. That switched over from long to short and this shipment of cars was going to knock the bottom out.

Well, as has been pointed out to me by some of my friends connected with the exchange, nobody paid much attention to it and the thing was a fiasco, with the simple result of the guy getting fired.

We brought charges against the firm that attempted the manipulation, first to corner and then to raid. They came in and manfully admitted what they had done, why they had done it. And said, what is going to happen to us?

Well, under the Commodity Exchange Act, all that can happen in that sort of case is put them out of business, deny them trading privileges on the contract market.

So they happened to come into my office the very morning that the Secretary signed the complaint and I said, Mr. Jones, you came in at an opportune moment, here is the complaint, and handed it to him. He looked it over and said, well, we will sign anything, we will sign a stipulation of compliance or what have you. But there is no sense in us signing anything, because I am through in the potato market and my concern will never touch another potato except in a sack.

But that is an illustration of what I am trying to say, that for every buyer, there has to be a seller. That is a perfectly true statement, of course, but it does not make the cornering impossible.

The first time there was any digging into the potato situation, it was reported way back in 1936, I think it was, that there was a congressional committee that held hearings in Chicago, New York, Presque Isle, Washington. They had 107 witnesses. I think it was the most comprehensive investigation ever made of futures trading in perishable commodities. At that time, onions were also being traded. The report on that investigation by the subcommittee is in your files and it has just a couple of things that I think strike at the very crux of this whole business. They said that the committee is firm in its belief that the physical distribution, production, of potatoes and onions, not the trading in futures contracts for those commodities, is a basic economic activity. Unless futures trading can be carried on without injury to this basic activity, it should be eliminated.

Now, that was 1936 or thereabouts. Since that time, there have been this series of polls taken, some of which the farmers agreed to put up money, or rather, where that money will be spent for use in the futures market. I do not believe anybody by any stretch of the imagination will say that all of this has resulted in a futures trading activity that meets the climate of the farmer. So we are still exactly where we were back there in Presque Isle 14 or 15 years ago. There have been no changes. The thing that I have heard here today from Dr. Gray I have heard before; from Dr. Hieronymus, things I am telling you and others are telling you. There could just as easily be an instant replay of what has been said on this subject all of this time.

What the thing is going to simmer down to, gentlemen—I do not want to be a prophet, but you do not need to be a prophet on this—is very simple. If this futures trading continues as it has, you and your associates are going to be faced with H.R. 7287 to stop futures trading in potatoes. How soon that will happen, I do not know, but it is just as certain to happen as the sun is to rise.

Now, that does not contradict the possibility of farmers—maybe most of them, maybe all of them—using the market if they can be educated—and I put “education” in quotation marks. Some pretty high pressure educators have been working on them for quite a number of years. These educators—there are several here; they are friends of mine; I like them. They have not been able to educate

the farmer and I just do not believe that he has gotten that much smarter, that in the foreseeable future, he is going to be educated.

So again I tell you that if this goes on as it has been going on, you are going to have another series of frustrations.

The farmer thinks he is a dignified businessman; he wants to be. He does not want to have anything to do with dice games—maybe he does, up at the club at night. But he does not like his potato business to be mixed up in that sort of thing.

Now, as far as this housewife in St. Petersburg and the dentist in Philadelphia are concerned, they are just as much gamblers as I am if I go out here to a dice game and shoot dice. The exchange euphemistically refers to them as outside investors. Well, there is no semblance of investor in them. Now, that puts us on the horns of a dilemma. If the exchange passes rules that will stop or greatly curtail these price movements we have been looking at here, you are not going to have any exchange, because these outside investors are going into the new offstreet betting parlor in New York or going up in New Hampshire and buying some lottery tickets. If you do kill it, which of course, we are asking you to do, what you are doing is simply saying this: Somebody is going to get hurt. There is no doubt about it. The people that have made money on this—and that is limited almost to the commission house—are going to be hurt.

Mr. Watts, I believe, said they have—I have forgotten—40 employees. Now, right there, I say that potato futures trading is not the only thing the New York Mercantile Exchange has in its cupboard. They say on the face of their brochure that they were organized in 1873. This thing did not become of any consequence until about 1955. There was some little going back and forth, but it did not amount to anything. They will lose what is left of the futures trading income from potatoes. And when I say what is left of, I say that advisedly, because from a high when I was in on the first act of this thing, a high of about 600,000 cars a year, this now is down, I thing, to around 150 or 160—I may be wrong—but it has tremendously decreased. And that, mind you, is after the abortive attempt to start a potato market in Idaho: potatoes on the Chicago Board of Trade. So even after you put those two together, the thing is very, very much on the decline.

Personally, I am not in favor of seeing them just gradually choke to death. We can say, well, let them die and just do not worry about it. But the people that are in this market are the type of people that like a highly volatile market, quoting the exchange brochure, beginning on page 2. We see the 685 positions and so on, right down the line—housewives, traders identified with the potato industry. There were 425 traders classified as hedgers out of a total of 3,671 in the market.

Now, that word "hedging" is another one that crops up every time these hearing are held and it rings a very skeptical bell in my mind. Hedging is a very indirect process. I always looked at it as something that you went along if you had some potatoes on hand, you would sell a few barrels and make money on one and lose it on the other. I found, however, that there has appeared today a new classification of hedgers which consists of some six or eight—six at least—

different types of hedgers with exotic names. Now, the average potato farmer is not going to know too much about hedging in its simplest form. When he has to start deciding what type of hedge do I want to put on today, he is going to be in real bad shape.

Most of them, at least, are not going to hedge in the true sense of the word. They are going to use their potatoes, those who get in the game at all, as a sort of key point around which to operate their futures. They go along in futures and if it looks like a good idea to ship some of these potatoes they have in the barn to put the futures down some, they will do it. If they are on the other side of the deal, they will say, no, I am not going to take my potatoes out of the barn at all and the price goes up.

But a great deal of the stuff that is classified as hedging is not, in my opinion, actually hedging and I wish that the CEA, with which I was connected and for which I have the same high regard that some of these gentlemen here have expressed today—I will say right now, that thing was organized in 1922, the CEA was, and it has gone from that day to this without one scintilla of suggestion of corruption or improper handling, and they are controlling a game that is tremendously susceptible to that sort of thing. So I think that they deserve an awful lot of credit.

They have a very hard and delicate job. If they find somebody they think is manipulating, they file a complaint. He has 30 days in which to reply to the complaint. Then they have a hearing. First of all, he gets sick as he usually does and then he has 60 more days. By the time they get this thing adjudicated, everybody has forgotten what it was all about. We actually have had cases where the culprit would run another big deal while this one was still in process.

In my investigations, I had one instance where a concern imported 30 million bushels of oats, skin grade oats, we call them, from Canada, for the purpose of depressing the price on the Chicago market. Those oats come from Winnipeg to Chicago. This firm was short Chicago and of course, it did not do the Chicago market any good.

Mr. FOLEY. Mr. Bagnell, I am going to have to interrupt you for a moment. I think it is going to be necessary to recess the hearings very shortly. I would like to ask if there are any witnesses who have not testified—Mr. McIntire, Mr. Baldwin, Mr. Ellis, Mr. Mercker, Mr. Frazier, Mr. Brooks—who could not return tomorrow at 10 o'clock.

You all are able to return tomorrow at 10 o'clock?

I am going to close the hearings this afternoon as soon as Mr. Bagnell completes his statement with a very short statement by Congressman Hathaway, who is committed to be in the State of Maine tomorrow.

Mr. BAGNELL. Well, I will bring it to a pretty quick conclusion.

Somebody mentioned a little while ago the undesirability of friction or it would be better if everybody would sit down together and let us reason together and so on. Well, I do not see much likelihood of that. The farmers have been becoming more and more antagonistic and in the last hearings here, right before the end of the hearings, a statement was put in which includes these words. This was put in by an exchange official. He suggested to the committee that the little boys pick up their marbles and go home and put their house in order.

Well, those "little boys" were the president of the American—I am not sure it was the president of the American Farm Bureau, but it was the highest officials of the most important agricultural organizations in the country. They did not like it very much—pick up their marbles and go home and put their house in order. Well, I would suggest that the job of putting the house in order every year after the May payouts would be a lot simpler if there were not an annual hoard of bulls and bears charging through the living room, which has been the case time after time.

Now, on that entirely unconstructive note, I will shut up. If there is anything I can say now or tomorrow or any time, I would like to.

Mr. FOLEY. Thank you, Mr. Bagnell.

Mr. Zwach, do you have any questions?

Mr. ZWACH. Mr. Chairman, I was wondering if this gentleman can come back tomorrow. I might have some questions then. I could ask a quick one now.

Mr. BAGNELL. I would come back on the 4th of July if you wanted me to.

Mr. FOLEY. All right. Well, we will look forward to you, if you can, returning tomorrow, Mr. Bagnell, for questions by Mr. Zwach at that time.

Accordingly, tomorrow, the committee will begin questioning Mr. Bagnell and then testimony by Mr. McIntire, Mr. McCormick, Mr. Baldwin, Mr. Ellis and then Mr. Mercker, Mr. Frazier from the National Farmers Organization, and Mr. Brooke of the National Grain Trade Council will conclude the hearings.

Congressman Hathaway, I understand that you have a pressing commitment in your own State tomorrow and you, like so many others, have been very patient throughout the day. I thought we would close the hearings with any statement you might like to have.

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENTATIVE FROM THE STATE OF MAINE

Mr. HATHAWAY. Thank you, Mr. Chairman. I fully expected that the hearings would be completed today or I would not have committed myself to be in Maine tomorrow. I think the hearing is substantially completed at this time and I think the committee has heard all the testimony pro and con which it is going to hear, although Mr. McIntire, who is going to testify tomorrow, and others will probably shed some more light on the objections that are going to be made by the opponents to the bill.

I testified, as you know, in January and I have a rebuttal statement here which I will not read but would like to have made a part of the record.

Mr. FOLEY. It will be included.

Mr. HATHAWAY. Mr. Bagnell has covered most of the points I have made here and I think Mr. McIntire and the others who will testify in rebuttal will cover all of the other points.

I might say I have not heard any arguments today against the bill which have dissuaded me from my original position in support of the bill and I would urge the committee to consider very carefully

the statements of the proponents, the urgency of abolishing futures trading in the New York Mercantile Exchange, the fact that 81 percent of the farmers in Maine, and it has always been a substantial majority of just about that percentage that have been opposed to the board in the past—certainly deserve due consideration. They are the ones who are bearing the brunt of this. They should not be subjected to being simply pawns in a poker game that is being played in New York. I think the fact that so many of them are opposed to it should be of considerable weight in the committee's mind.

I will make one final point, that as long as the board is in existence—I am not talking about any manipulation or anything else to that effect, although there has been testimony about manipulation—as long as this futures board is in existence, as long as you have a perishable commodity such as potatoes with a limited season, orderly market is hindered. Potatoes are the only perishable commodity traded. They talk about other perishables, but the other perishables are sold all year long. With potatoes, you cannot sell them after the May contract. That is the end of the season. As long as you have a limited season, perishable commodity, on the futures board, then it is going to inhibit and actually prevent the orderly marketing of potatoes on the fresh market.

That is, I think, the thrust of the argument of the proponents. They want the opportunity to try orderly marketing. But as long as the board is there, they are not going to be able to do it.

Now, it is not going to be a panacea to get rid of the futures trading but is going to help them considerably to start on an orderly marketing procedure and I am sure that with orderly marketing and greater cooperation among farmers of Aroostook County, they are going to get a better return for their potatoes in the future.

Thank you, Mr. Chairman, for your indulgence.

(Prepared statement follows:)

STATEMENT OF HON. WILLIAM D. HATHAWAY, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MAINE

Mr. Chairman, as the principal sponsor of H.R. 7287, and as the final witness at these hearings, I would like to briefly summarize the major points made by various witnesses who have testified in support of this bill both today and in late January.

(1) Futures trading in potatoes effectively prohibits the orderly marketing of that commodity by concentrating sales in the trading months, and particularly by influencing farmers to hold potatoes until late in the season in hopes of getting a higher price than the fresh market will yield.

(2) Perishable products such as potatoes are not adaptable to constructive and orderly futures trading. Perishability causes price volatility which attracts, and is exaggerated by, reckless speculation. Potatoes are the only limited-season perishable commodity currently being traded on the futures market.

(3) Futures activity can cause erratic price movements, and such unwarranted and rapid gyrations of price in the potato futures market have a confusing and depressing effect on the people actually engaged in the production, moving and marketing of potatoes—the people who depend on potatoes for their livelihood.

(4) Only a small percentage (15%) of the potatoes produced in this country are expected to bear the burden of futures trading. Maine growers' competitive position vis-a-vis the 85% of the potato producing areas where there is no futures trading has progressively worsened as futures speculation has tightened its hold on the Maine market.

(5) An overwhelming majority of growers and dealers in actual potatoes are strongly opposed to futures trading and urge its elimination. The results of the most recent vote on the subject in Maine indicate that 81% of the farmers oppose futures trading. Numerous organizations, both regional and national, are supporting the Maine growers in this opposition.

Opponents to H.R. 7287 have presented testimony in defense of futures trading, claiming that it fulfills a useful and needed economic function in the production and marketing of potatoes by (a) providing facilities for hedging, and by (b) providing reliable pricing information.

Proponents have testified that the potato futures market is used only to a negligible extent for hedging, and much of this hedging is done in a manner damaging to the price structure and to the average grower because fertilizer, chemical and machinery companies requiring the hedge often have a short position on the Board and consequently are desirous of a downward trend in the price of potatoes. If financing were accomplished through a crop mortgage, however, the mortgagee would be interested only in seeing the Board go up to further protect his interest. Moreover, any advantage to be gained by hedging is nullified by the purely speculative element involved in the futures market. A May, 1971 report of the Department of Agriculture showed that the vast majority of futures traders (93.4%) on the New York Mercantile Exchange were classified as speculators. Only the remaining 6.6% were classified as hedgers.

The argument that potato futures trading must be maintained because of the pricing information it provides seems to overlook the fact that 85% of potatoes are produced and marketed free of futures trading. Moreover, USDA has stated that "the function of crystallizing market information in the other areas is being performed satisfactorily between buyers and sellers." (USDA report on H.R. 6006, 89th Congress, dated August 4, 1965).

Opponents of elimination of futures trading in potatoes have also testified that the elimination of such trading in another perishable commodity, onions, in 1958, did not reduce the price variability for the cash market. Yet, a representative of the onion industry testified that onion growers continue to be thankful to be rid of futures trading in their commodity. While the elimination of futures trading in onions did not solve all the industry's problems (and no one expected it would), it did allow the industry to return to normal supply and demand marketing methods. Moreover, the fact that there has been no significant move by any sizable segment of the onion industry to restore futures trading indicates its elimination has apparently worked to the benefit of most onion growers.

There are those who would defend futures trading in potatoes on the grounds that a futures market offers even greater relative advantage to a perishable than to a non-perishable commodity since it acts as a guide to the rate of consumption of existing supplies, provides an efficient rationing of those supplies, and provides an adequate forward pricing mechanism so that price changes can be anticipated.

Nevertheless, it is the perishability of potatoes and the limited length of the contract period which upsets the marketing procedures. Moreover, it is doubtful that futures trading acts as a guide to the rate of consumption of existing supplies when only a very minute percentage of the potatoes traded on the futures market are ever delivered.

The contention of the proponents of futures trading that speculators do not set prices, that futures markets simply reflect the cash market is of dubious truth in fact when one considers that in Maine nothing is bought or sold without at least a glance at the Board.

The argument, presented by a representative of the Cotton Exchange, that futures trading has cut costs and passed them on to the consumer, does not really apply to potatoes. Hedging by producers of potatoes is minimal, and only a fraction of a percentage point of the number of contracts traded are ever delivered. Moreover, potatoes are characterized by an inelastic demand (i.e. consumption changes little despite changes in supply and price), so that retailers charge a fairly stable price to the consumer, no matter what the high and low price factors to the producers are. Therefore, a low price to the producer of potatoes is not necessarily a low price to the consumer.

No proponent of H.R. 7287 and no observer of the Maine potato industry would ever claim that the elimination of futures trading would be a cure-all

for all the industry's problems. But it is a fact that growers are demoralized and confused by the antics of the futures market, and this causes a failure to make constructive efforts to solve other problems facing the industry. The elimination of futures trading in potatoes would be an important first step in establishing a healthy Maine potato industry where the crop can be moved in an orderly manner, at a reasonable price, without undue influence from outside forces who care little about potatoes except as they can be utilized as a pawn in a game of chance.

In closing, Mr. Chairman, I would like to say for the record how pleased I am that so many Maine growers took the time and trouble and expense to come to Washington to indicate in person their strong support for this bill.

Thank you.

Mr. FOLEY. Thank you, Mr. Congressman.

The Chair wants to thank all the witnesses and all those who have been in attendance today, and also, although they had to leave a few minutes ago, the other members of this subcommittee. They have all been very patient through a rather long period of testimony. We usually do not go much more than 3 hours at a time and this has been a difficult subject and one that is somewhat complex in its aspect. The Chair appreciates the courtesy and patience of all who have been in attendance.

Accordingly, the subcommittee will stand in recess to meet at 10 o'clock tomorrow.

(Whereupon, at 5:15 p.m., the subcommittee was adjourned, to reconvene, Friday, March 17, 1972, at 10 a.m.)

PROHIBIT TRADING IN IRISH POTATO FUTURES

FRIDAY, MARCH 17, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING
AND CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE,
WASHINGTON, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 1301, Longworth House Office Building, Hon. B. F. Sisk presiding.

Present: Representatives Sisk, Denholm, Zwach, and Findley.

Also present: Christine S. Gallagher, chief clerk; and Lacey C. Sharp, general counsel.

Mr. Sisk. The committee will come to order.

At the conclusion yesterday, we had six witnesses left, and I think one gentlemen from yesterday to answer questions. This morning, we have three witnesses whom we shall hear, and then call Mr. Bagnell back, and then we shall hear the last three witnesses in a separate bloc.

At this time we shall be glad to hear from Mr. Smith McIntire.

Mr. McIntire, we shall be glad to hear from you. We are glad to welcome you to the witness stand this morning.

STATEMENT OF SMITH McINTIRE, PERHAM, MAINE

Mr. McINTIRE. Mr. Chairman and members of the committee, ladies and gentlemen, my name is Smith McIntire from Perham, Maine, Aroostook County. I want to thank you for the opportunity to testify in behalf of the Aroostook County Potato Growers Association and for myself in support of H.R. 7287, to prohibit futures trading in Irish potatoes.

I have been involved in potato production and marketing much of my life, and my neighbors have experienced prosperity and poverty, bankruptcy, changes in production techniques, and increased complexities in the potato market. Others have testified regarding the detailed operation of future trading. I would like to confine my remarks to two areas of thought relative to the detrimental influence of such potato trading on the industry.

These have been mentioned by the others. They are the potato futures program, so structured that its speculative aspects are exaggerated; and second, that in practice, it is counter to sound marketing objectives.

I have no criticism of future trading in other commodities. I would like to add here that much of our discussion yesterday, good as it was, left me with the feeling that we were dealing with meat,

soybeans, everything but potatoes. Much of the discussion dealt with the theories of marketing. I devoted some 15 or 20 years on the University of Maine campus, with a title as economist. I have a great respect for professors on the campus, and many friends. In the potato fields and in the market area of potato marketing, I have a great respect for the interests of those who are doing the work. And I like to draw those lines. But we have no criticism. We are not fighting the grain market. We are not fighting soybeans or corn. Whether they trade 7 million trades in something else, in aluminum or plywood, is not the problem. Our problem is that we are up in a remote corner of our United States. The futures trading market is limited to us. The traders pretty largely nationwide who trade in futures trade in ours and not on the Chicago board. They trade in ours, because ours is the most speculative area, and if you are going to make any money in speculation, you have to be where the action is.

Now, I would just like to briefly point out that futures trading in any real constructive marketing program, the objective is to promote a continuity or uniform movement of supplies to the consumer to improve quality, to minimize short-time price changes, lending stability to the market, and to improve the relationship and the confidence of growers in the market structure.

Now, futures trading largely violates all four of these. It is a major factor in shifting the movement, tending to shift the movement toward the latter end of the season in which the physical movement is a problem. We have heard much discussion here, yesterday, about the opportunities of May sales, late season sales. There is the problem of physical movement and anybody who is acquainted with the actual marketing of potatoes knows that a large portion of this crop cannot be moved in May, June, or July. And the board has tended to be a factor in pushing this into that season. It is not the only factor, but you deal with problems in pieces, and it is my contention that in May and in the potato market, this is one of the pieces.

From the quality standpoint, the board is completely uninterested. In deals in a paper commodity and as far as description of quality, it has nothing to do except to set forth the contractual terms. And it deals in 50-pound lots, containers, and the trade wants a smaller container—10, 15, and 20. This is merely descriptive in orders set forth in the contract.

Improving the marketing of a perishable commodity like potatoes, it is important that you minimize the short-time prices. We heard a lot of testimony to the effect that this board does not change prices. I would agree that probably year after year, if you could arrive at the average price, I would agree that there is not, probably, a big influence on your average price. But you may average to be very healthy for 50 years, but you die on a particular day, and you are just as dead whether you have average health over this period or not. If you are in the potato marketing business and the price is kicked out from under you on a particular day and this board moves—25 or 30 cents, sometimes in a matter of an hour—the farmer in the field is in no position to follow this thing.

Now, when the speculators or planners—if you would look at the charts, and you have them—you would see that there are violent short-time price swings. This causes uncertainty in the minds of buyers on the other end, uncertainty in the minds of growers. Everybody, all the speculators, is trying to make a fast buck when she is on an upswing, and to save their necks when she is on a downswing. This causes hysteria that is not a part of production. It contributes nothing to the food supply but hysteria. And this runs counter to our effort to put a good product uniformly on the market, priced on the basis of a supply and demand factor over a period of time.

Now, I would agree that the swings, if you would average these swings out—and that is what we have been told—if you would average these swings out over a matter of weeks, I suspect that the difference, the influence is there. But if you put years together, I doubt if you could prove that the board can either push the market up or down. But I know my neighbors. I know the people here. I have been a producer of potatoes since being at Maine University. I have been a producer on the home farm for some 20 years. I know my neighbors who are down, and I know merchants that are bankrupt as a result of getting caught in this thing.

But more than that, you can excuse that. You can say that this fellow had no business to be a speculator. But I make my living from an industry that is being dominated at times by the speculative elements in the board. And I have no choice when I go to the market and when I call my broker to sell potatoes, he looks at the board before he buys—is it going up or going down—because the fellow he sells to in Boston or somewhere else is watching the board figure—is that going up or down? And they have to. To me, it is the speculative aspects of it that are a lot like having a poker house moved in inside of your own home town. You object to having this thing. You object to having it in your community. Why? It attracts the interest of your own people, who should be devoting their attention to production.

More than that, it attracts into your community the elements that have no interest in your community, only interest in a fast dollar. For this reason, I have no objection to trading in grain. I think it could be constructive. We have a commodity here grown in one county, roughly 150 miles long, being traded nationally. That county is subject to rumor of frost, rain, and so on.

We trade only 4 months. We bunch them into the spring and it is an unconstructive thing in the industry. I would cite the fact—it was mentioned yesterday by one of those testifying—that we should not be bothering the committee with this problem. This is our only avenue. I have testified in all the hearings that have been held representing usually the farm bureau. It is from government that this thing could be settled, and the grower has rights.

I am sure the committee, as it has evidenced, is tremendously anxious to know the extent to which this particular thing is detrimental to these growers who are producing in Maine and who are making a real contribution in the way of food production.

It was testified yesterday that this was a very satisfactory avenue for farmers to gain financial stability. The individual who presented that testimony is not here. It so happens that the farmers selling to

his own organization are waiting 90 days now for their pay, and their organization is delinquent thousands of dollars besides that. And the statement that they need this for financial stability—now, this you would not know, but we do because we are the ones who sell to this organization.

It was testified here yesterday, the statement was made twice, that if it were not for traders—meaning actual traders, not on the board but the market structure—if it were not for them there would not be any farmers. I would like to get this in the other context. If it were not for farmers, there would not be any traders. They are the ones who are supposed to be standing in between. I think that in the element in these various segments, the farmer is the one that can demonstrate most effectively that he is the producer of wealth and the other people are the producers of service. And to the extent that they are essential, they are contributing. And to the extent that they are parasitic, they are not contributing. And if you have 10 brokers doing the service that one needs to do, nine are parasitic and you do not need them. I just question the statement that was made in this regard.

I would like to urge the committee, this being the fourth session on this matter, I need not set forth the conditions in our potato area. We have an excellent State. Farming is a very worthwhile enterprise, enjoyable. Potato growing is a good way of life. It so happens that the various factors in our business have brought out practically full-scale bankruptcy in our areas. These are many factors which we would like to deal with. Futures trading is one of them, and it is our feeling that under the statutes set up by government which permit various things like futures trading, under these statutes, this organization has been set up and it is only by their revision by action of government that we can bring about correction. We can deal with people in our areas and matters in which we have authority. We can only deal with this through government, and we contend that we have the right to be here and that you have a very sincere interest in our appraisal of this.

I thank you gentlemen, and I hope that you will find this testimony that has been given favorable, and that you will act to help bring about the elimination of one factor that we are unable to deal with in any other way.

Thank you.

Mr. SISK. Thank you very much, Mr. McIntire, for a very fine statement. If you will just move over one seat, we shall go ahead and hear two more witnesses, and then I would like to have you return to the stand for questioning.

At this time the committee will be happy to hear from Mr. William J. McCormick, of Rosemont, Pa.

Mr. McCormick, I believe you do not have a prepared statement to submit.

STATEMENT OF WILLIAM J. McCORMICK, CHETWYND, ROSEMONT,
PA.

Mr. McCORMICK. I submitted one to the clerk.

Mrs. GALLAGHER. We have only one which we gave to the reporter.

Mr. SISK. Very well. Your entire statement which you submitted to the clerk will be entered in full in the record. You may read it or proceed as you desire.

Mr. McCORMICK. Thank you.

Respected sirs, I am William J. McCormick and I live in a Philadelphia suburb, the Maine Line. I am a graduate of Temple University with a degree in finance. I was the first one, 18 years ago, to speak out publicly against potato trading on the mercantile exchange.

Before giving my testimony, I believe it only fair to all concerned that I establish my credibility as a witness.

On April 1, I will have been in the potato business for 50 years—a half century. I have held a license from the USDA since this licensing requirement came into existence many years ago. During my 50 years in business, I have given countless speeches on a variety of the Nation's problems. These speeches have been circulated worldwide and from the thousands of letters I have received from people in all walks of life, from all parts of the world, I would like to name just a dozen that have acknowledged my work in this field.

1. The King of Sweden.
2. The Prince of Wales (England's future King).
3. The Vice President of India.
4. President Nixon.
5. The Press Secretary to Vice President Agnew.
6. J. Edgar Hoover (a letter I prize highly as he writes to very few people).
7. The Governor General of Canada.
8. The Prime Ministers of Greece, Southern Rhodesia and Canada.
9. The President of the General Assembly of the United Nations.
10. General John W. Vogt, member of the Joint Chiefs of Staff.
11. F. Lee Bailey, the famous criminal lawyer.
12. Many of the Governors of our States, including Oregon, Pennsylvania, Michigan and Maryland.
13. The United States Secretary of Agriculture.

And only this week I received a letter of commendation from the Speaker of the House of Commons, London, England.

I have all these letters here should anyone care to verify their existence. I am not convinced that men in such high positions in government would not take time out to commend me if my thinking was not sound and practical. I might add several of my speeches have been placed in the Congressional Record by different Congressmen.

With this history of my background established, I now wish to bring you up to date on my subject today—"The Commodity Exchange—a Cancerous Growth in Our Industry." I am prepared to read from a speech I gave in Chicago on February 3, 1954, before the assembled members of the United Fresh Fruit and Vegetable Association with members attending from all States. This speech was given 18 years ago, just after potato and onion trading on the exchanges was established. Since that time, the onion trading on the exchange has been abolished by vote of Congress and, I might say in all modesty, that this speech I am about to read had a great deal to do with the abolishment of onion trading as a copy of the speech was sent to every member of Congress and carried in full page endorsements by our trade papers to our members in all States.

This speech gives the story of the beginning of potato and onion trading on the exchanges and is just as true today as it was then—possibly more so. And here is the speech:

I would like to preface my remarks with the thought that people are sometimes afraid to show disapproval of that they know to be wrong. This is just as wrong as it is to be intolerant. As I stand here addressing you, I feel as lonesome as the single sparrow on the rooftop. He has the courage to face a tremendous world—I ask for courage to face and to fight what I believe to be a tremendous evil—the Commodity Exchanges.

For thirty years I have operated in the potato business, and during that time we have laughed and we have cried with our ups and downs, but for the first twenty of those thirty years we at least ran our own business. It is only in the last ten years that the Mercantile cancer appeared on the scene. At that time I began getting telephone calls and mail from strange sounding names—persons I had never heard of in our industry. I soon learned that most of them were foreigners to our business, but that they were active in a place of business where one could gamble with the perishable foodstuffs of the American people. This, to me, meant that orderly marketing would be taken out of the hands of farmers and concentrated on a couple of so-called gambling Boards, where, at the whim of one man or a group of men, the fortunes of farmers in our forty-eight States would be affected. No one will deny that the potato and onion markets are no longer made on the farms and in the terminals, but rather on these gambling Boards, many times by individuals outside the industry whose clients, in many instances, are ones far removed from the produce industry and are no better versed in our commodities than to think a Green Mountain potato must be raised on the hills of Vermont.

This is a sad commentary indeed to realize that two of our most important staple foods, the two items handled by a majority of our industry, potatoes and onions, have become a football to be kicked around by citizens of our country who have the gambling fever, so that our industry no longer had the marketing control over these two commodities. The very fact that this element, foreign to our industry, dominates the Exchanges, makes the market highly sensitive to rumours and keeps it in a continuous state of unrest. This condition is, of course, desirable to the brokers and exchange operators because it whets the appetite of the gambler for many and quick fluctuations and gives the brokers and operators an abundance of remuneration, but keeps our farmers and dealers in a continuous state of unrest.

The clever fellows who operate these Boards tell us the Boards are for the farmers to hedge their crops, but I can tell them it is nothing but a gambling board that has bankrupt most of those who have dealt on it—and unfortunately many of these are our own American farmers and our shippers and dealers. I know of one instance where a broker from one of the exchanges visited one of the largest potato shipping districts, in close proximity to New York City, to instruct the farmers there how to gamble on the Board, buying and selling Maine potatoes. I am 'gamble,' because the potatoes of this particular section to which I refer are not even handled on the Exchange.

I have no personal quarrel with the individuals who are members, traders or brokers on these Exchanges, nor with the Exchanges themselves, as I have every reason to believe that they are operating under the present laws of our country. My criticism is with the present rules and laws that govern these Exchanges which, in their present form, encourage gambling with our foodstuffs to the detriment of those raising and distributing these commodities.

If these gambling boards are so beneficial to the American farmers, as some would lead us to believe, then I ask — why are the commodities now traded on these Boards — wheat, rye, corn, cotton and butter — all singled out for price supports by our Government, and why does our Government now have an inventory of over five and one-half billion dollars worth of these commodities on hand? And why are potatoes, now trading on the Boards, selling for 75 cents a barrel in Maine—

Which they were selling for at that time, 18 years ago—

and why are onions now traded on the Boards, selling for 59 cents per bag? I'm afraid these are difficult questions to answer.

I wish that some of you could have accompanied me last spring, as I traveled for five weeks through the Eastern part of our country, and could have seen the heartaches and misery these Exchanges have created in our industry. Our farmers and dealers not only lost their money and their morale, but some even lost their health, and continued procedure of this sort means the bankruptcy of intelligent thinking, planning, and financing.

Do I know what I am talking about when I tell you that high percentages of our farmers and dealers stay glued to their telephones, neglecting their real occupations, as they endeavor to learn if the "Board" is up or down? Unfortunately, many others outside the industry also listen, and I ask you — how can a soldier at the airport base in Limestone, Maine, a jeweler in Lancaster, Pennsylvania, or a blacksmith in Tennessee, buy a carload of potatoes and accept delivery of the car when delivery time comes? Of course he can't! When tendered his car, he must sell regardless of the sacrifice. With this thought in mind, if anyone can show me one way in which this Board put money in the farmer's pocket, enroll me as your student, because I shall point out to you many ways in which our farmers are penalized.

For instance, — all during this present shipping season, one could buy cheaper on the Board than from the shippers in Maine. I ask you, is this helping our potato farmers to raise their market? What is the Board doing now to increase the price to the farmer; still better, what can they do to raise the price? The answer is, nothing! By the same token, what did the Board do in the fall of 1952 when the farmers were getting a fair price? At that time, Board operators and other citizens of our country sold short, which was their privilege under the present laws, hoping to drive the prices down, which they were successful in doing, and the market dropped to a dollar a barrel in Maine. I won't say this was the entire reason for the complete collapse of the potato market, but I think in all fairness you will admit it was a contributing factor. Don't the American farmers realize these Boards have brought about short selling and that without these Boards there would be no place to sell potatoes short and drive their markets lower? Are we naive enough to stand by and watch this terrible evil continue?

I, for one, believe that evil cannot endure, given time it will destroy itself, but time is of the essence and if the present Washington Administration really wants to do something to ease the plight of the farmer, where could they find a better way or place to start than by outlawing the short selling of his commodities. An imbecile knows that every short sale drives the market lower and thereby takes money away from the farmer.

I often wonder how gullible the American people can become when they will allow an operation of this sort to exist when it is a factor in driving down the potato market and then, in turn, have our Senators vote for government supports, which taxes every citizen in the country. As I said before, in one of my Price Control speeches — how stupid can human beings act! Inasmuch as laws are civilization's rampart against the aggressions of savagery and barbarism, then I say that laws to correct this evil are bankbooks of prosperity to our American farmers. The penalty that people pay for not being interested in politics and protective laws, observes Plato, is to be governed by people worse than themselves.

One should never criticize without offering a solution.

And I might say, of all the people we heard testify yesterday, I did not hear anyone offer a solution. I am going to offer a solution, which I did 18 years ago. I wish you would listen carefully to it.

One should never criticize without offering a solution, and I offer the only solution that will take gambling out of the Exchanges and still offer an honest, legitimate service to our American farmers, and here it is:

No one may sell potatoes or onions on the Board unless he physically owns them or can show contracts with farmers or shippers as proof that he actually has the potatoes or onions to deliver, and that these contracts will actually be delivered further, no one may trade in the buying of these potatoes and onions unless he is licensed by the U.S. Department of Agriculture, as a dealer or processor in the Fruit and Produce business, and maintains a place of business for this purpose; and further, that he will take physical possession of these contracts when tendered. Best of all, this eliminates the short selling

which, to my mind, is unpatriotic, ruinous to our farmers, outright gambling, and un-American.

This, then, will give a farmer in Maine the chance to sell his potatoes to a person in the produce business, or to a processor, who cannot throw them back on the market to further depress the market should it be low, but will orderly merchandise his contracted goods, taking his loss or his profit. This eliminates, and rightfully so, those who are gambling with America's foodstuffs — the jewelers and the blacksmiths, who should stick to their diamonds and their horseshoes, and confines its operation to those in the produce and good distribution business who operate therein.

There are now over six hundred houses, floor traders, and brokers trading in potatoes and onions. The plan I have proposed will reduce this number 90 percent; gambling will be eliminated and the farmers will again control their markets. When you realize that some of these six hundred were making thousands of dollars a day last season on brokerages, you can understand that it takes either a fool or a courageous man to come here and to challenge this system as I am now doing. You will have to judge for yourself what I am, but before judging, let me remind you that some of the Board operators bitterly criticized one of your Chicago gentlemen last spring because he dared raise his voice against such an abuse. Well, I'll answer their challenge with these authentic government figures, for I would indeed be a fool to stand here and castigate this evil unless I were sure of my approach.

During the 1952-53 potato season, according to government figures, the State of Maine shipped physically, by rail, 46,091 cars, yet 75,646 cars were traded on the Board, nearly twice the crop that Maine raised, and out of these 75,646 cars traded, how many do you think were actually delivered? Well, according to the official figures of the Commodity Exchange Authority of the U.S. Department of Agriculture, which I hold in my hand, out of these 74,646 cars traded, only 900 cars, or slightly over 1 percent were physically delivered.

And since that time, I have gotten information from our men in Maine that in 1966—and get this—there were 590,000 cars traded in and 483 cars delivered—less than one-tenth of 1 percent actually delivered. Everything else was gambling.

All through this address I have talked about gambling and gambling boards, and before closing I want to give you the legal definition of a gambling contract. Here it is, and I quote, "A gambling contract may be disguised in the form of a legitimate transaction, the ordinary form being by dealing in futures. The validity of such a contract depends on whether the intentions of the parties at the inception is to deliver or receive the goods bargained for, or to settle on the basis of difference in price" (unquote).

Now I ask you, as intelligent human beings, to refer back to my figures of 75,646 cars traded and 900 cars, or approximately 1 percent, delivered, and decide for yourselves if "the intentions of the parties at the inception of these contracts was to deliver or receive the goods bargained for, or to settle on the basis of difference in price." Well, according to government figures, 99 percent were gambling, as they didn't deliver or receive.

Gentlemen, as far as I am concerned, these 'Exchanges' are for the birds, and most of the "birds" I have seen play them have nothing left but their pinfeathers.

I thank you.

In summation of my remarks, I should like to close by stating that in a democracy such as ours, our officials are elected by the majority vote to carry out the will of the majority of the people.

In the instance of the commodity potato trading on the exchanges we have the following individuals who have been elected by majority vote and who are opposed to this exchange trading:

Yesterday, you heard the Governor of Maine, and I understand the complete legislature of Maine has voted against this trading. The Governor of Idaho—they are the two States mostly affected, as theirs are the only potato growing States whose potatoes the exchange handles.

Other States are on record by vote as being affected detrimentally by the mercantile exchange trading on potatoes, among them are North Dakota, Virginia, Pennsylvania, Minnesota, Idaho, New Jersey, North Carolina, Ohio, California, Oregon, Delaware, Florida, New York, and Alabama. They are all on record as being detrimentally hurt by trading on the mercantile exchanges.

Also on record as being opposed to the mercantile exchange trading on potatoes are the State senators and representatives, as well as the U.S. Senators and Representatives of these two States, Maine and Idaho, whose commodity, the potato, are the only States being traded on the mercantile exchanges. And last but not least, opposed to the exchange trading on potatoes are the farmers themselves, who sweat and toil raising the potato for our consumption and 82 of these farmers who have voted time and time again that they do not want their commodity, the potato, to be footballed around in a gambling manner on the mercantile exchanges.

With this preponderance of opposition by those elected officials and to those so vitally interested, the farmers, who grow the commodity, I cannot see how you could bring forth a decision other than to legislate out of existence the potato commodity exchange trading as you have already done with the onion commodity exchange trading.

Thank you, gentlemen, for your indulgence.

Mr. SISK. Thank you, Mr. McCormick. If you will stand aside, now, we shall call you again in just a few minutes.

The committee will be glad to hear from Mr. Danny Baldwin from Jackson, Mich.

STATEMENT OF DANNY BALDWIN, JACKSON, MICH.

Mr. BALDWIN. Mr. Chairman, members of the committee, my name is Danny Baldwin from Jackson, Mich. My previous testimony on behalf of the onion industry was presented before this committee on January 20. Being a matter of record, it need not be repeated. There are, however, several items of importance which I would like to present at this time.

As vice president of the National Onion Association, I have been authorized to speak for an overwhelming majority of the members of this nationwide organization.

Years ago the National Onion Association helped spearhead successful legislation to prohibit futures trading in onions. Our members represent every onion producing State, representing every phase of the onion industry as growers, shippers, receivers, brokers, and processors.

In addition, this organization has been authorized to appear and represent the thinking and sentiment of dozens of agriculture organizations across the country.

The National Onion Association policy opposing futures in onions has remained unchanged. Apparently some, a small minority, think otherwise. Those few persons directly engaged in mercantile exchange business naturally do not share our views. They did not in 1958, and I would not expect them to today.

What petitions have been circulated were board-sponsored, and what onion people who signed them, almost all are potato speculators. These speculators naturally are fearful of the success of this legislation.

In any division of an agricultural industry, the grower is always the primary consideration, and rightly so. He and the product he produces are the basic foundation of the industry. In fact, the grower is the industry.

I would like to make several comments concerning testimony given here opposing this legislation.

Testimony here opposing this legislation is given by a small group, a group which, incidentally, has no real or true identity with agriculture or the potato industry. Their slanted testimony must be recognized and the impact minimized.

In this category also falls the testimony of Mr. Alex Caldwell, Administrator of the Commodity Exchange Authority. I respectfully submit Mr. Caldwell, along with some exchange brokers and professors, do not know what they are talking about. I feel they have no practical experience trading potato futures, or experienced the adverse side effects in the cash market involved here. They most likely have never stood in a potato field. They have never seen, like these growers have, a whole year's income and toil wiped out by quick dollar manipulators or speculators in a few days' time. Literally food on these growers' family tables has disappeared in front of their eyes, because speculators influenced the potato market adversely, and they had to sell their crop below cost.

Opponents of this bill testified futures on potatoes work successfully because the book says so. They make it sound like heaven on earth. My cup runneth over. Mr. Chairman, in the manipulation of this potato market, there is no book. These speculators never read the book.

University consultants testified here opposing this legislation, yet they readily admit they have practically no experience trading potato futures. These growers have not got Ph. D. credentials in economics, but they have got 20 year's experience in potato futures, and empty pockets to prove their contention that potatoes are not suitable for futures trading.

I would also like to clarify some statement made yesterday concerning these exchanges that are handling these commodities, the non-profit organizations. I accept this as being correct. However, the true story is not stated here in that the members, the brokerage houses that are members of these exchanges, the fees on these exchanges yearly run into millions of dollars. These people opposed to futures wish to be free from the effects of a system that bleeds the potato industry of millions of dollars and contributes nothing but chaos and demoralization to the cash market.

Opponents of this bill have disregarded the perishable nature of potatoes. Any market where a man gets delivery of a product and knows he has to dispose of it in a fairly short time or it goes bad on him certainly seems to be more susceptible to trouble. This is sharp contrast to the items like corn, wheat, and cotton, which can be stored for years and, therefore, disposed of in an orderly fashion.

So perishability is an extremely important fact, different from other commodities traded. Potatoes, Mr. Chairman, are unsuitable for futures trading because they are too perishable.

Opponents to this legislation disregard that it is perfectly obvious there have been very unsatisfactory situations in the potato futures market or these growers wouldn't be here.

As you can see, CEA officials, exchange brokers, speculators, professors, cannot speak the time-experienced practical truth that farmers speak. No person, group, or agency could possibly be better qualified to determine the needs of the industry than growers themselves.

Mr. Chairman, these growers have come to Congress for relief and help. Their wishes must be listened to and honored.

In conclusion, I would like to say the National Onion Association position is clearly stated to be on record opposing futures trading in onions. Due to the similar perishability of both onions and potatoes, the National Onion Association supports this legislation, H.R. 7287, to prohibit futures trading in potatoes.

Thank you for your attention.

Mr. SISK. Thank you very much, Mr. Baldwin.

Now, Mr. Bagnell, who spoke yesterday—is he here?

Mr. BAGNELL. Yes, sir.

Mr. SISK. If you want to move up to the table, Mr. Bagnell, and Mr. McIntire and Mr. McCormick and Mr. Baldwin, so you gentlemen can answer such questions as the committee may have.

At this time, the Chair recognizes the gentleman from South Dakota, Mr. Denholm, for any questions he may have.

Mr. DENHOLM. I yield to Mr. Zwach for the present.

Mr. SISK. The Chair recognizes Mr. Zwach.

Mr. ZWACH. Thank you, Mr. Chairman, and thank you, Congressman Denholm.

Our evidence keeps coming in continuously, and of course, it is conflicting. I asked specifically that I would like to visit with you, Mr. Bagnell. I feel you are very learned in this subject. I think time and experience has given you a great deal of background. You say you have spent most of your time trying to put a harness on a sort of balky operation. How much better, as a result of your years of trying to harness it, how much better is the operation of the exchanges now than it was when you started your work? Have they been improved a great deal?

Mr. BAGNELL. Not limiting my answer to potatoes, but covering the whole commodity field, I have been, as I attempted to indicate yesterday, in very close touch with commodity futures, tradings, since about 1931. I wrote a pamphlet on it which is in the Library of Congress and I have written numerous things since that time.

Mr. ZWACH. They would be available in the Library of Congress to this committee?

Mr. BAGNELL. Well, this particular one, which happens to be the first study ever made that analyzes the futures trading from the Chicago Board of Trade, is in Congress, and the bill, everything else is available through the docket files of the Department of Agriculture, because it all relates to alleged violations of the law.

Now, I am glad that you gave me this opportunity to say this. I mentioned yesterday some rather horrible examples—a 30 million bushel deal in oats—and my purpose was twofold; one, to attempt to convince the committee that I should know something about the subject. The other was to differentiate between potatoes and other commodities. In citing the horrible examples, which I do not remember which one I did, many of those did not pertain to potatoes as such. So I am not saying that the potato board imported oats from Canada to suppress the price in the United States.

But coming back to what I believe you started out on, what changes for the better have come about?

Mr. ZWACH. Might I say two things? Do the exchanges themselves police themselves better? Does government do a better job? Would you speak to just those two points?

Mr. BAGNELL. I would say that the exchanges, certain of them particularly, have endeavored to improve abusive or abolish abusive situations. My own feeling is that generally that was under some degree of pressure from the government, or some agency attempting to reform. But strictly, back in the early days, there was a practice on the Chicago Board of Trade and other exchanges dealing in things called bids on offers. It was a two-bid gambling device under which you could use exchange prices for as little as \$5.50. The bootblack on the corner with \$5.50 could trade in wheat, corn, oats, barely, on a very complicated process that I do not believe you want me to take the time to explain.

Mr. ZWACH. No, capsule it.

Mr. BAGNELL. Well, it was abused, and would result and did result in many pitiful situations.

Now, the exchanges began to recognize the undesirability of that, and when the Commodity Exchange Act was amended, that was outlawed entirely. The exchanges did particularly—and this is speaking for ones that I have been closest to—set up business conduct committees. At one time, those business conduct committees were of very little weight or importance. It would be a couple of members of the exchange that would draft it. They were not very popular men, and they did not try to do too much.

But back in the thirties, the situation began to get a little bit more critical, and they seemed to set up some pretty effective business conduct committees. I was instrumental in setting one up on the Chicago Board of Trade. They were very competent people.

Mr. ZWACH. You left office with the exchanges in better condition, harnessed better than when you entered?

Mr. BAGNELL. I have to apologize. I am a little bit deaf. Would you say that again?

Mr. ZWACH. I say when you left the U.S. Department of Agriculture, the exchanges were harnessed, as you say, better than they were when you came in?

Mr. BAGNELL. I think so. I do. As I mentioned yesterday, a very well-informed and extremely honest exchange official one time in my presence described the commodity futures markets as places where the forces of greed and avarice were harnessed for the benefit of the marketing system. Well, that struck me as putting into a very few

words facts that I have listened to thousands of words and seen hundreds of books on. I think that was one of the most succinct descriptions.

Now, my work has been primarily in attempting to adjust that harness to a degree that you did not choke the horse to death, but he still would not run away and tear the buggy up.

Mr. ZWACH. Now, if I could come to page 2 of your testimony where you say that there were 3,671 players sitting in on a paper potato futures at the close of business October 29, 1965.

Mr. BAGNELL. Yes, sir.

Mr. ZWACH. Then you make a list of the players: 685 physicians, lawyers, teachers, and other professionals; 493 manufacturers, financiers, and the like; then you come down to 147 farmers, other than potato farmers.

Now, how many potato farmers were involved in this list? You do not list potato farmers.

Mr. BAGNELL. Well, first, that list was prepared by the Department of Agriculture.

Mr. ZWACH. Yes, it is an authentic list?

Mr. BAGNELL. I think completely.

Mr. ZWACH. Yes.

Mr. BAGNELL. It was the result of communications between the Commodity Exchange Authority and the various futures commission merchants that handle this merchandise. Now, how many of those were actually potato farmers, I am not sure I can tell you right at this moment. Farmers, you will notice on page 2 of this thing, are farmers other than potato farmers.

Mr. ZWACH. Yes, and I wondered how many potato farmers were involved.

Mr. BAGNELL. Well, other than potato farmers there were 147.

Mr. ZWACH. You perhaps do not have the number of potato farmers.

Mr. BAGNELL. No, we get over to the traders, identified as speculators, brokerage firms, and so on; traders classified as hedgers. Now how many of those 425 were farmers I do not have that information and I am not sure that the Commodity Exchange Authority has it or that it could be produced. There was some portion of those 425 traders classified as hedgers that were potato farmers.

Mr. ZWACH. It would have been a very small number of the total?

Mr. BAGNELL. I would be guessing. However, coming again to this word "hedgers," which was mentioned by practically every witness the other day—

Mr. ZWACH. What part of the volume of trading in potatoes, what fraction of that volume do you think might have been carried on by potato farmers?

Mr. BAGNELL. I would say it was relatively minute. I have examined the records of hundreds of brokerage houses, asked for the occupations—what does this fellow do and what does this fellow do?

Incidentally, some of them are rather confusing. One was classified as a dilettante and one—I suppose this fellow knew him, and he said, oh he just fizzled around. So some of those are rather immaterial to our serious inquiry.

But I would say that relatively few potato farmers actually speculated.

Mr. ZWACH. Do you think it hurts those that do not participate? Statements were made yesterday that potato farmers that do not want to use it do not need to use it. Would they be effected advantageously or adversely by others using the potato exchange?

Mr. BAGNELL. Well, the average potato farmer, as has been brought out most clearly by these polls, has an unfavorable mental attitude toward speculation. He thinks that he is in a business to raise potatoes and sell them. He thinks it is a dignified, or should be a dignified business. He may have other diversions that maybe you or I might not think are dignified, but as far as his potato growing is concerned, he would like for it to be dissociated—I am talking of the average now. There are farmers who at times have speculated heavily in potatoes, and some of those have gone flat broke attempting to do so. They for a time were ardent exponents of the potato futures market. They went broke and now they do not think the potatoes futures market is so good.

Mr. ZWACH. It is your judgment that the Maine potato farmer would be better off without this market?

Mr. BAGNELL. I certainly do feel that this is the case. I have felt so particularly since 1958, when I met with groups of farmers in Maine. We had nightly meetings, starting up in Madawaska, and came down through Houlton, Bangor, Presque Isle, and there would be 15 or 20 farmers there. At that time I was working for the Department of Agriculture.

Well, their first question to me was why do you people allow this horrible thing to continue. I would say there would be 20 farmers at this meeting. I will say 18 of them would take that position. Two others, or maybe three or four would say, well, I have found good use in the futures market. Now, whether they continue to or not, I do not know.

But beginning with that demonstration of frustration and anger and animosity that the farmers felt toward the exchanges, even if that were the only thing before us, I would say that the Maine potato industry—and it spreads all over the United States to a lesser and lesser extent—would be better off without futures trading.

Mr. ZWACH. Thank you.

Mr. McIntire, your name is not unknown in Maine. Are you related to the former member of this committee?

Mr. MCINTIRE. Thank you, I happen to be his older twin brother. I helped bring him up.

Mr. ZWACH. I see. Are you also a potato farmer?

Mr. MCINTIRE. I have been a grower of about 125 acres of potatoes for the last 20 years, up until this last spring when I sold my cropland.

Mr. ZWACH. You are convinced and recommend that the Maine potato farmer would be better off with the passage of this bill?

Mr. MCINTIRE. Without reservation, I have taken that position.

Mr. ZWACH. Without reservation?

Mr. MCINTIRE. I have one statistic here which is in answer to the question that you asked, Mr. Bagnell.

Mr. ZWACH. Yes. I would like to have it.

Mr. McINTIRE. In a publication known as "Futures Trading in Maine Potato Markets, Survey No. 2," from the U.S. Department of Agriculture Commodity Exchange Authority, on page 24, it lists down the traders by occupation, a particular day, and the day was November 27, 1970. On that day, there were 2,757 traders. Potato growers were 173; engineers, technical were 250.

I shall not read them all, but there were lawyers and judges and there were clerks, and so on that were equal to the number of farmers. I shall not go further than to say that, but you can find a breakdown of this very particular day. That was in 1970.

Mr. ZWACH. Could that pamphlet you have be available to our subcommittee?

Mr. McINTIRE. Yes.

Mr. ZWACH. May we have it?

Mr. SISK. Without objection, if you will submit it to the clerk, we shall make it part of the file.

(The document referred to was made part of the record and will be found in the files of the subcommittee.)

Mr. McINTIRE. Mr. Chairman, I have three other items here I would like to submit as part of the record. One is a petition which carries my count of 57 names of people who are here, mainly growers and their wives, from Aroostook, who are down here at their own expense, travel and hotel, who came down on our chartered flight. Many of them are here in the building. There is a list of signatures and places of residence.

There is a supplemental statement by the Maine Potato Council and there is one sheet of a report from a Mr. Edward F. Johnson, associate professor of agriculture resources, economics, University of Maine, in which he summarized some data and indicates roughly that 8 years out of 11 prices in his opinion have been detrimentally affected. These items—there is a longer report.

Mr. SISK. Without objection, Mr. McIntire, the list of 57 names of people present here today will be placed in the files of the committee and the other two items will be made a part of the record.

(The documents referred to follow:)

SUPPLEMENTAL STATEMENT BY MAINE POTATO COUNCIL ON H.R. 7287

Under date of September 24, 1956, a subcommittee on futures trading in perishable commodities submitted a report relating primarily to futures operations in onions and potatoes. This report was the result of what is probably the most comprehensive study of futures trading in perishable commodities that has ever been undertaken. A total of 107 witnesses were heard and hearings were held in Chicago, Presque Isle, Maine, and Washington, D. C.

Among the concluding paragraphs of the report appeared the following statements:

A. In the absence of cooperative action on the part of mercantile exchanges to effect adjustments which would make futures trading an indisputably constructive trade vehicle for onion and potato producers, and in the event any enhanced regulatory power of the Commodity Exchange Authority fails to promote clearly constructive futures market activity, the Committee on Agriculture should promptly consider legislation prohibiting futures trading in potatoes and onions.

"B. The committee is firm in its belief that the physical production and distribution of potatoes and onions—not the trading in futures contracts for those commodities—is the basic economic activity. Unless futures trading can be carried on without injury to this basic activity, it should be eliminated."

The facts presented in this investigation of onions and potatoes about 16 years ago are almost identical with the situation that had existed some years

prior to that time and has existed to the present date. It would be useless to waste the committee's time with a detailed replay of all that was said, either pro or con.

A news item appearing just a few days ago on financial matters carries the headline "Diamond Contracting Rides on Instability". It is doubtful if there are any two products less similar physically than diamonds and potatoes but the fact that speculation has now been started in diamonds makes one wonder if diamonds will have the necessary "instability" to be a suitable medium for futures gamblers.

It makes no difference to the Maine Potato Farmers whether or not people speculate in diamonds, frozen turkeys, apples, nails, black pepper or any of the dozens of products where the forces of greed and avarice attract people who want to bet on the direction the price will go.

The potato farmers have no quarrel whatever with these price gamblers. They do agree, however, with a statement made by the United States Department of Agriculture that perishable commodities, particularly onions and potatoes, attract a type of speculation that is more difficult to control effectively than is the case in more stable products.

The fact is that the potato growers welcome the proliferation of gambling enterprises where people can take a chance who might otherwise get into potatoes. We are rather pleased over the apparent success of Off-Track Betting which seems to be going over pretty well in New York and, also, the legalized lotteries which are appearing in some states. We hope that this will serve to siphon off from potatoes some of that type of speculation that the USDA recognizes as being needful of particularly tight surveillance.

Encouragement in this direction is derived from the sharp decline in the Maine potato futures trading in recent years and in the not very successful attempts to inaugurate such trading in Idaho potatoes on the Chicago Mercantile Exchange.

We know, and the figures are available to prove it, that as the volume of futures gambling in potatoes increases, price movements become wider and more frequent.

If it were not so deadly serious to the actual producers, it would be amusing to read some of the Mercantile's ads regretting their inability to help the onion industry to achieve a stable market because Congress so unwisely prohibited futures trading in onions in 1959. The records will show that one of the main contributing factors to enactment of the law abolishing onion futures trading was the result of absolute chaos in the Chicago market where onions were brought in and filled the railroad yards to the extent that they were in such a state of decay that actually the burlap sacks were selling for a higher price than the onions they contained.

This sort of thing brings to mind the rather famous episode of May, 1964, when there was one, and only one, account on the long side of the potato futures market. In this case, one trader, who had the courage and financial ability, took delivery of all of the 1939 car lots which otherwise would have been dumped on the market to the complete disaster of those handling actual potatoes. It is indeed gratifying that this one trader's judgment proved correct and he came out of the deal with a whole skin.

Of course, we do not know what the proponents of futures trading will present when they begin their case on March 16, but it seems unlikely that they will have anything substantially different from their previous testimony, particularly that in S. 332. It adds up to a defense of futures trading in general with no apparent knowledge of any difference between trading in stable commodities and those where the contract must come to an end at the close of each year. Diamonds are probably on the extreme end of the line as regards stability while potatoes would be rather close to the other end.

In presenting what is likely to be another academic defense of gambling in potato futures, a number of questions arise:

1. Do these witnesses recognize any difference between trading in perishable commodities against storeable products?

2. Have these witnesses studied any of the actual examples set forth in the CEA dockets on abusive operations in potatoes in particular, but, also, in other agricultural products?

3. Do these witnesses base their conclusion on any actual contact with the futures markets in the capacity of brokers, members or control committees?

When contending that potato futures trading is essential to the efficient market process, do these witnesses give any consideration to the fact that a

majority of the potatoes in the United States are produced in areas where there is no futures trading? Can they demonstrate or do they contend that these areas are handicapped in comparison with Maine? Are they aware of the contention that Maine prices are better than those in other areas and in connection with this fallacious contention, do they consider the fact that methods of grading and packing cause Maine prices to be above those in other areas?

How do they view a situation where a large potato dealer set out to corner the futures market and discovered that so many potatoes were available that a corner seemed unlikely to succeed, and then reversed his venture by going short futures and threatening shipment of some 400 cars to glut the Harlem Yards? This operation included wiring the USDA to have inspectors available at the yards to inspect the strictly mythical shipment which was never even intended to be made. Do the defenders of such operations agree with the Mercantile officials who contend that this was no reflection on the futures market because the "insiders" did not believe the manipulator was actually going to succeed?

How much study of the some 150 formally docketed cases on public record in USDA files has been made by the defenders of futures to support their stated view that "futures trading is a thing of beauty and a joy forever"?

We feel that some additional comment should be made concerning the sharply differing reports made by the United States Department of Agriculture in connection with these bills. In reporting on H.R. 904, the Department recognized that the dissemination of market information and the handling of actual potatoes was done in a satisfactory manner in areas in which there was no futures tradig. This is a most significant point and the Maine Potato Council was surprised and perplexed by its omission from the report on the current bill H.R. 7287. In analyzing the reports on the two bills, it appears on H.R. 904 the USDA conceded that the marketing process went along entirely satisfactorily where there was not futures trading, while the USDA seems to now take the position that enactment of H.R. 7287 would be most undesirable.

Quite a bit has been said by the proponents of futures trading as to the merits of hedging. We would like for some of the opponents' expert witnesses, or for the USDA, to go into a little bit more detail as to what they consider hedging. It is a fact that in most instances the so-called hedger is simply a speculator who from time to time uses actual potatoes as an anchor or a backlog for his speculative operations? Has the CEA or any of the "professional Professors" obtained from these so-called hedgers substantiating data showing their futures operations and their cash operations side by side? Is it possible that much of what is labeled as hedging is nothing more than a little more sophisticated speculative operation?

We feel, Mr. Chairman, that this supplemental statement is somewhat longer than it might be but due to the necessarily broken up and intermittent nature of the presentation before your committee, we are encouraged to attempt some reiteration, emphasis, and summary where it seems justified.

Needless to say, we again are highly hopeful and are expecting that at the conclusion of all of the hearings, the Congress will consider the enactment of H.R. 7287 as being a long-delayed fulfillment of the need expressed by the subcommittee on September 24, 1956.

Potato farmers, like most farmers, tend to be proud and independent and they bitterly resent forced association with a gambling enterprise that has proven over too many years to be incompatible with the production, storage and marketing of their perishable product. The great majority have expressed themselves time after time. They "have had it" and they seriously feel that relief is long past due. Why it has taken so long to have their case concluded on its merits is simply beyond their comprehension.

ANALYSIS ¹

Years in which prices in April and May were generally rising, but it would appear May futures prices had a depressing effect: 1962, 1964, 1965, 1966, 1968.

Years in which prices in April and May were generally level, but it would appear May futures prices had a depressing effect: 1961, 1963, 1969.

Years in which prices in April and May were generally rising, and it would appear May futures prices bore neither a depressing nor elevating effect: 1970, 1971.

¹Information prepared by Mr. Edward F. Johnson Associate Professor, Agriculture Resources Economics, University of Maine Drono, Maine.

Years in which prices in April and May were generally level or rising, and it would appear May futures prices had an elevating effect: 1967.

May futures prices would appear to have had a depressing effect on cash prices in 8 out of past 11 years.

Years in which cash prices rose after May contract terminated—

(a) When cash prices were level to rising just prior to trading termination: 1964, 1965, 1970, 1971.

(b) When cash prices were level to falling just prior to trading termination: 1962, 1963, 1966, 1968.

Years when cash prices remained level or fell after May contract terminated: 1961, 1967, 1969.

Cash prices rose or continued to rise after the May contract termination in 8 out of past 11 years.

Mr. SISK. The booklet you have, will that be made part of the file? Do you want that in the record?

Mr. McINTIRE. No.

Mr. SISK. Very well.

(The document referred to will be made a part of the record and will be found in the files of the subcommittee.)

Mr. SISK. The gentleman from South Dakota.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. McIntire, how many members and growers do you have on that list?

Mr. McINTIRE. I did not break them down by growers, but I could. There is a total of 57 individuals there. The charter flight had about 80 percent on it. The people who had come down before did not sign this because they had signed a previous petition.

Mr. DENHOLM. Are the growers present with you in the hearing room this morning?

Mr. McINTIRE. They are.

Mr. DENHOLM. How many of them are growers? Will you have them stand, please?

Mr. SISK. All the potato growers from Maine stand up.

Mr. DENHOLM. Will you count them for the record?

Mr. McINTIRE. We make the number, sir, 32, and there are quite a few absent that have other appointments in the city.

Mr. DENHOLM. Let the record show that there are 32 persons standing.

May I ask, Mr. McIntire, how many of those 32 growers have had experience in the potato futures?

Will those stand that deal in potato futures?

Mr. McINTIRE. May I ask the question, dealing at the moment or have dealt?

Mr. DENHOLM. Yes—have had any experience in potato futures.

Will you stand?

Mr. McINTIRE. How many are there that have dealt in potato future?

Twenty-three.

Mr. DENHOLM. The next question is, of those 23, how many have profited from dealing in potato futures?

Will they stand?

Mr. McINTIRE. Two. I have traded—let me make a comment. I have two comments that I would like to make.

One is that I am, after trading and being behind, trying to dig a crop of potatoes and borrowing \$8,500 to cover my margin calls, and

paying the telephone company probably \$75 to try to keep track of the board, I think I am not ahead after about 10 years—and I have not been on the board for 5 years—I think I am ahead \$1,000 as far as those individual trades. But I would like to comment on this.

I have no criticism of a person who trades on the board, because it is a fact of life up there.

Let me bring up one point. I was not on the board, I have never been on but just a few times. But I sold a carload of potatoes to a Caribou concern in advance. I sold a real carload. Now, to this extent, I was not on the board. This is an example of the whole industry. I suspected this brokerage house was covering on the board.

I sold it to Beaverbrook. I loaded the car when it came time to sell. I had nothing to do with the trade they made. They do not want the car. So when I get ready to load it—it is a good car of potatoes, I find that the sacks going in are Mr. Vahlsing's sacks. Mr. Vahlsing has a statement in here and is a big trader.

So I load Beaverbrook's car of potatoes—they are a legitimate brokerage house. I load it in Vahlsing's bags and load the car. Three days later, I note—I notify them at the time the car is to go, presumably, as far as I know, to Boston and New York. It is to be eaten by people who want food. Three days later, I find the car still sitting on the track. I called Beaverbrook, a fellow I know very well.

I said, this has not rolled. I told you this is ready for billing.

He said, I do not know who it belongs to, He says, I sold it to Aroostook growers.

My point is, while I have loaded a car of potatoes, and I am guaranteeing at point destination, point of guarantee and destination, while I am doing that, this car sits there and these brokers swap it back and forth any time they can make their brokerage.

The point I am trying to make, I have not dealt in the board in the sixties. But my industry is as dominated by the board as though I had made the sale. I would probably have been better off if I had made it.

So while these gentlemen stand and say they have traded in the board, they have no apologies to make. You are forced to do business in the atmosphere in which you exist, and whether you do it directly or indirectly is unimportant.

Mr. DENHOLM. Mr. McIntire, is the experience of those growers present characteristic of the growers in the industry? There are only two out of 23 that have profited from the use of the exchange. Do you have an opinion on that?

Mr. MCINTIRE. Oh, I would have an opinion, but you know—

Mr. DENHOLM. You can answer yes—if you do have an opinion?

Mr. MCINTIRE. Yes; I have an opinion.

Mr. DENHOLM. What is your opinion—are the experiences of the growers characteristic of all growers in the industry?

Mr. MCINTIRE. Yes; in a short term. In a long term, they ?

Mr. DENHOLM. Thank you.

Mr. McCORMICK, you testified that your record indicates that there are many more carloads of potatoes traded in the futures than actually are delivered. Is that correct?

Mr. McCORMICK. That is right.

Mr. DENHOLM. Mr. Chairman, I call Mr. Watts to the witness stand for questions concerning the functions of the exchange, the New York Mercantile Exchange. He is present in the audience.

Mr. Watts, will you respond to inquiries in that respect?

Did you hear the testimony of Mr. McCormick, Mr. Watts?

Mr. WATTS. Yes; I did. What is it you want to know, Mr. Denholm?

Mr. DENHOLM. Is it true, that many, many more carload lots are traded than actually exist for market?

Mr. WATTS. No. You can trade. You can trade 10,000 cars, and have an open interest of 7,000—I do not mean 7,000 a day. But the year's trading is people that are in and out of the market; the hedgers go in and out of the market. A man who owns an inventory, after he sells some of it, or if he finds that he has sold and that he takes a profit, the market goes up again, he may put his hedge on again. He may replace his hedge.

That is the way a hedger works. That is the way a merchant works, anyway. It is the way I ran my business.

Mr. DENHOLM. You began your answer by saying, "No" but I understand your explanation to confirm the testimony of Mr. McCormick—is that true?

Mr. WATTS. That there are more trades than there are deliveries or commitments?

Mr. DENHOLM. Yes.

Mr. WATTS. Oh, yes.

Mr. DENHOLM. You do not particularly care with whom you trade? That is, trading in futures is not limited to growers?

Mr. WATTS. No; it is the privilege of most anybody who wants to hazard some money.

Mr. DENHOLM. Yesterday I asked you some questions about your nonprofit organization. You are the chairman of the board, are you not?

Mr. WATTS. I am chairman of the board; yes, sir.

Mr. DENHOLM. Are the board members paid employees or compensated for services to the exchange?

Mr. WATTS. No.

Mr. DENHOLM. Are your employees paid?

Mr. WATTS. Our employees are paid, because they serve the membership; they do the clerical work, do the clearing.

Mr. DENHOLM. Is the chairman of the board on a salary?

Mr. WATTS. No.

Mr. DENHOLM. What do you do for a livelihood?

Mr. WATTS. I have my own business.

Mr. DENHOLM. What is your business?

Mr. WATTS. I am in the dairy and poultry business.

Mr. DENHOLM. Do you operate the New York Mercantile Exchange for nothing?

Mr. WATTS. Yes; that is true.

Mr. DENHOLM. Where does the money go?

Mr. WATTS. What money?

Mr. DENHOLM. Is there any money accumulated in the name of the New York Mercantile Exchange?

Mr. WATTS. No; it is a nonprofit business. We charge a clearing fee.

Mr. DENHOLM. How much?

Mr. WATTS. A clearing fee necessary to clear these trades, and with those moneys, we pay our help.

Mr. DENHOLM. How much does that amount to a year?

Mr. WATTS. Our payroll?

Mr. DENHOLM. Yes.

Mr. WATTS. About \$5,000 a week, \$6,000 a week.

Mr. DENHOLM. How much a week?

Mr. WATTS. Between \$5,000 and \$6,000 a week.

Mr. DENHOLM. What is the incentive for continuing the mercantile exchange?

Mr. WATTS. Well, it is exactly the same thing as a stock exchange, except that we trade in commodities.

Mr. DENHOLM. Do you pay broker fees?

Mr. WATTS. Of course not. Brokers that belong to the exchange, the brokers charge fees of their customers. The only thing that the exchange charges is a clearing fee per trade.

Mr. DENHOLM. Is it your testimony that there is no particular amount of money other than the employees' salaries that directly or indirectly comes from the potato industry as a result of the activity of the New York Mercantile Exchange?

Mr. WATTS. This is not taken out of the industries; it is taken out of the brokers who trade.

For instance, it costs 50 cents for a day trade, 25 cents if you are in and out a day trade. We have to have those funds to take care of our employees.

Mr. DENHOLM. Does the mercantile exchange contribute at all to the benefit of the producers who are marketing the products?

Mr. WATTS. We are not a marketing organization. We are purely and simply an exchange, a board of trade. That is what it is. The mercantile exchange is a board of trade.

Mr. DENHOLM. Does it operate to the advantage of the consumers?

Mr. WATTS. Yes; indeed there is.

Mr. DENHOLM. What advantage is the mercantile exchange to consumers?

Mr. WATTS. Contrary to evidence that you have heard this morning, we believe, and we sincerely believe, that the presence of a board of trade stabilizes the market. It prevents the wild variations in price, or perhaps it tempers them.

Mr. DENHOLM. Now, Mr. McCormick testified that—I think his recommendation was that there should not be any dealings with people who are not producers, who are not capable of delivering. If that was the policy, what would happen to the futures market trading?

Mr. WATTS. You mean to make the futures market a merchandising market?

Mr. DENHOLM. Yes.

Mr. WATTS. You would interrupt the general course of the industry.

Mr. DENHOLM. What would happen to the New York Mercantile Exchange if that was the case?

Mr. WATTS. Well, the New York Mercantile Exchange is not in business to make deliveries or accept deliveries of the actual product. The deliveries are accepted by its members. Deliveries are made and accepted by the members of the New York Mercantile Exchange Clearing House, not the exchange. The exchange supervises and enforces its results.

Mr. DENHOLM. I refer now to the reaction of the growers present that indicated that they dealt in the futures marketing of potatoes. I think there were 23, is that correct?

Mr. MCINTIRE. Twenty-three, I think, sir.

Mr. DENHOLM. Thank you, sir. There is testimony of record by the president of the Chicago exchange, and also by the economists that were present and testified yesterday, that this could be a tool in marketing if you understood it. How many of those 23 growers present understand the transactions of the futures trading? Will you stand, please? All of you that understand futures trading?

May I have a count of those that understand the futures trading in potatoes?

Twenty-two. Twenty-two of the 23 that have experience in futures trading understand what they are doing in the exchange. But they have indicated that they did not profit from participation therein.

Now—the testimony by the previous witnesses that represent the exchange is rather forcibly refuted by the response of growers present. Do you have any comment on that, Mr. Watts?

Mr. WATTS. That was not my testimony, Mr. Denholm.

Mr. DENHOLM. I realize that it was not. Do you have any comment on the testimony of prior witnesses that have indicated the growers do not understand the futures trading?

Mr. WATTS. I am sorry to say that I have a dissident opinion on a great many things with a great many people. We had 17 witnesses here whose statements are in the record who use the exchange, use the futures market regularly, and they understand it.

Mr. DENHOLM. It is your testimony from your experience and personal knowledge as the chairman of the board of the New York Mercantile Exchange, that this agency does not contribute anything to the efficiency of marketing—it is not a marketing agency?

Mr. WATTS. If you mean that the exchange buys and sells, the exchange does not buy or sell anything. The exchange furnishes the machinery for people to trade. It furnishes the facilities for clearing trades, for keeping order.

Mr. DENHOLM. Do you claim to represent the growers of potatoes, in anyway at all?

Mr. WATTS. The exchange represents the industry more or less through its members.

Mr. DENHOLM. Well, are you talking about the potato industry?

Mr. WATTS. Any industry with commodities that we trade in.

Mr. DENHOLM. Do you represent the potato industry?

Mr. WATTS. No, we represent our members, who are the industry.

Mr. DENHOLM. What industry?

Mr. WATTS. The potato industry, for one.

Mr. DENHOLM. Then you do claim to represent the potato industry?
Mr. WATTS. Through our members. We represent our members, here, if that is what you mean.

Mr. DENHOLM. How many potato growers do you represent here?

Mr. WATTS. Well, I do not know. I do not know how many. We have 40 memberships in Maine.

Mr. DENHOLM. Forty potato growers?

Mr. WATTS. I do not know whether they are growers or shippers or what.

Mr. DENHOLM. Well, can you indicate for the record whether or not the New York Mercantile Exchange does represent them, and if so,—how do you represent the potato growers of this country?

Mr. WATTS. We do not represent them as agencies to buy and sell. They use the facilities of the New York Mercantile Exchange to make their trades, and we supervise and enforce the contracts that are made on our board.

It is a board of trade. It is not a business organization. It is a board of trade.

Mr. DENHOLM. Very well.

Now, Mr. McCormick, may I refer briefly to part of your testimony—you suggested that futures trading should be limited to actual deliveries of commodities, what would make that proposition any different than belonging to a cooperative or a national farm organization or a collective bargaining group in marketing procedures? Is that what you were suggesting?

Mr. McCORMICK. No. The thing is this; if you had to physically deliver those potatoes, and if you owned them and had to physically deliver them, that would be all right. But that would cut down the trading, the gambling in the exchange about 90 percent. They would do about 10 percent of the business they are doing now, maybe less. But it would be a legitimate business, because the processor, if he wanted to buy potatoes for May, if he wanted to buy them in November for May, he would buy them for May, but he would have to take delivery. He could not throw them back on the market. And he would either take his profit or loss in May.

Mr. DENHOLM. If you pursued that policy, that kind of procedure, would you not be doing collective bargaining, and the producers, the people in possession of the commodity, would actually be collectively bargaining in establishing a market in the future?

Mr. McCORMICK. Not necessarily. They are individuals. Anybody can buy a car of potatoes if he is going to take delivery of it. But now he does not have to take delivery of it.

I do business with a Beverly Hills broker. He called me last week and wanted me to buy a carload of chocolate. Can you imagine me buying a carload of chocolate? To take physical possession of it? He should be calling the Hershey Chocolate Company, not me.

That is what I mean; the buyer of that carload of potatoes would not buy that carload if he knew he had to take delivery of them.

Mr. DENHOLM. I think that is what you referred to in your comment about the blacksmith and the jeweler. They do not buy futures to own and possess the commodity.

Mr. McCORMICK. That is right, and this is the problem. You have to be licensed, which would keep the jeweler out of it unless he wanted to get a license from the Department of Agriculture, and I do not see how he could. He has no right to be buying potatoes; I have no right to be buying chocolate.

Mr. DENHOLM. Now, with your understanding of the futures trading market, do you believe that it could exist under that arrangement?

Mr. McCORMICK. Definitely it could exist. Why not? If I wanted to buy 10 carloads of potatoes and knew I had to take them, I could buy them and take them and take my profit or loss at that time. I could not throw them back on the market. There would be no short sales.

Mr. WATTS. May I ask Mr. McCormick, during the time that he was holding the futures, if he changed his mind and wanted to sell them, he would not have the right to sell them?

Mr. McCORMICK. That is right. You have to take delivery. You have to own them. The man who sells them, the farmer, has to own them before he can sell them, and the man who buys them has to take them.

Mr. WATTS. Is that the way the business is done? That you never sell anything that you buy to anyone else?

Mr. McCORMICK. I am talking about potatoes.

Mr. SISK. I think you gentlemen will have to call a halt to that exchange. I appreciate the difference of opinion that exist here, and I think the committee is well aware of that. But I think we had better get back on the track.

The gentleman from South Dakota has further questions.

Mr. DENHOLM. Thank you, Mr. Chairman.

Mr. Baldwin, do you represent the onion growers—is that correct?

Mr. BALDWIN. Yes, sir.

Mr. DENHOLM. I understand the onion growers are no longer subject to futures trading, is that correct?

Mr. BALDWIN. Correct, sir.

Mr. DENHOLM. And your testimony is that you support the bill to stop the futures trading in potatoes?

Mr. BALDWIN. Yes, sir.

Mr. DENHOLM. Are you familiar with other commodities in futures trading?

Mr. BALDWIN. Well, somewhat. Generally, we—these potato people and onion people—onions and potatoes are both perishable products, similar in nature. So a great deal that was wrong with onions is wrong with potatoes.

Most of the people here have no quarrel with the apparent success of staple commodities like wheat, corn, cotton.

Mr. DENHOLM. Do you have an opinion as to futures trading as it relates to livestock?

Mr. BALDWIN. Yes, sir; I do. I feel cattle, and in fact my siloes are full of feed right now. Board people will tell you that the cattle exchange—and there again, I would say that they have apparent success in cattle. But they will tell you to buy these cattle and hedge them on the board and pass the risk on to the speculator and laugh

all the way to the bank. Now, I am getting ready—I am avoiding buying the cattle today. 500 pound steers, the last I knew, were going to cost 40 cents a pound, which is about \$200 a head, and I guarantee that you cannot hedge those cattle on the board, lock in a profit, and laugh all the way to the bank. You would have to hunt to lock in \$10 or \$15 a head loss.

Mr. DENHOLM. Now, Mr. Baldwin, you have probably heard my questions to Mr. Watts. I have difficulty in understanding why the mercantile and board of exchanges exist because there is obviously no profit in such ventures. The boards of exchange are non-profit corporations operated by directors and officers that do not receive compensation. I do not really know why farmers and growers are objecting to it, since it does not cost anybody anything. Do you have any comments on that?

Mr. BALDWIN. Well, there is a little bit of confusion here. I do not know if it is intentional or not. But I grant the exchanges could be nonprofit organizations, and that is what Mr. Watts is speaking of. But the brokerage houses that belong to his exchange have very lucrative brokerage fees, and that is where the money comes in.

Mr. DENHOLM. Where do they get their brokerage fees?

Mr. BALDWIN. They charge the customer.

Mr. DENHOLM. They are paid by the jewelers and the blacksmiths?

Mr. BALDWIN. That is right. They get that from the jewelers and blacksmiths. I do not know what the current fee is. Let us say it is \$25 a car, and they are trading thousands of carloads a day. So the brokerages at the end of the year run into millions of dollars.

Mr. DENHOLM. Well, now, let us suppose that there might be some attempt to manipulate price. Why should that happen, if at all?

Mr. BALDWIN. Well, the speculator who is interested in making a profit, and also the brokers—contrary, probably to what Mr. Watts would agree with—the brokers are not interested in a stable market. They are interested in a yoyo market. They charge people on the swing up and on the swing down.

As far as the speculators go, why, producers are supposed to be hedging, passing the risk on to the speculator.

Mr. Chairman, it does not work out that way in practice. That speculator, he is not buying; he is selling short. He very quickly learns that it is difficult to construct a market or build a market in perishable products. Due to false rumor and sensitive marketing in this industry, it is much easier to sell short and depress the market. When that goes down, this is tie-in with the growers in the back of the room, the speculator is so short, he depresses the market down, buys the paper back cheap, and every warehouse full of Maine potatoes on the cash market has gone down proportionately with the board decline. That is the tie-in with the futures and the cash.

Mr. DENHOLM. Is there not another distinction? If you are on a down market you do not have potatoes? If you do not sell, you have not lost anything, have you?

Mr. BALDWIN. You are out of the market.

Mr. DENHOLM. Well, if I was holding potato futures and they went down but I did not sell—I have no computed profit or loss even if my inventoried assets may indicate a lower book value.

Mr. BALDWIN. Your paper, then, is worth less money.

Mr. DENHOLM. It is worth less money and my book inventories are reduced proportionately but until the sale or transaction is concluded there would be no profit or loss computed thereon.

Mr. BALDWIN. Right.

Mr. McCORMICK. Theoretically you lost money, because your market is down.

Mr. DENHOLM. The point of the hypothetical is that I have not actually lost any money until I sell the paper. My assets may be lower but unless I am compelled to sell or own potatoes the down market cannot offend me.

Mr. McCORMICK. Yes; but if you have the potatoes in your—

Mr. DENHOLM. Excuse me, let me ask Mr. Baldwin—if I have the capacity to hold until the futures go up and sell on the up market, but the producer holding the commodity for a future delivery date can not be exercising judgment in “hedging” to protect himself against a down price and speculate in the exchange of futures trading to insure against the down price on delivery date.

Mr. BALDWIN. No. He suffered the decline.

Mr. DENHOLM. That is one of the problems that growers in possession of commodities have as opposed to the more flexible position of speculators.

Mr. SISK. I hate to cut anybody off, but we have three more witnesses this morning, and as far as I know, we are going to end this hearing this morning. I do not wish to cut the three gentlemen short, and I do not wish to be arbitrary—if you have a quick comment, Mr. Watts, we shall give you just a minute to make it.

Mr. WATTS. The only comment I have here is that there is a confusion here between the short sale and—they talk about a producer's losing money when the market goes down, if he is short, he does not understand why a producer who had x number of cars, who has produced x number of cars, could go ahead and increase his inventory by buying a future, because he is really increasing his inventory because he has to sell that future or accept delivery of it. So if these producers hedge, a futures contract, a hedge, is what we consider and what everybody in the industry considers—probably not all the producers—what everybody considers an insurance policy on your price. You see a price of \$4 for May potatoes; you know that is what you can get for potatoes in May. So if you think that that is a good sale for your potatoes, you sell them. Of course, you have to put up a margin. You can either deliver it or you can take it back and sell your potatoes somewhere else.

That is the only thing that I wanted to clear up. If a producer is long and has potatoes, he is just increasing his inventory. He is making it more difficult for himself to sell the potatoes. If he is short, why, then, he can deliver the necessary amount.

Mr. SISK. I appreciate your comment. As I say, there are differences of opinion connected with this. Mercantile exchanges, as I understand it, are just like any other stock exchange. It is a legitimate way of buying and selling a lot of paper. What effect it has on the actual producer of the commodity—and we are here talking about

perishable commodities—is a matter this committee is concerned with. Whether or not a lot of the buying and selling of paper that goes on for years and years is necessary to the food and fiber production needs of this country, that is the question we are concerned with.

Let me say I appreciate very much you gentlemen being here. We appreciate your comments and we are happy to have you.

Now, if the committee may proceed, we have three more witnesses. I am going to urge them to make their statements as expeditiously as possible, without trying to cut them short.

Mr. Mercker, we are very happy to see you again. We always appreciate having you appear before us.

I believe you have a statement, do you not?

STATEMENT OF A. E. MERCKER, CONSULTANT TO THE NEW YORK MERCANTILE EXCHANGE

Mr. MERCKER. Yes, sir.

Mr. SISK. If you want to file that, it will be filed in its entirety. And if you wish to summarize, we would appreciate it.

Mr. MERCKER. I would rather read it.

Mr. SISK. All right. If you can read it quicker, go ahead.

Mr. MERCKER. I shall skip that part where I say that I have been associated with the vegetable business for 50 years. I am executive secretary of the Vegetable Growers Association of America, but now I am not speaking for them, I am speaking as an individual, because the Vegetable Growers Association of America went on record several years ago as against futures trading in potatoes.

Well, ever since I have been associated with the industry, for 50 years, the potato industry has been characteristically noted for its wide fluctuations. I will give some illustrations of this.

Going back to the Maine crop of 1911 the growers received an average of \$1.28 per cwt. on the farm for all grades of potatoes in September. They dropped to \$1.10 in October and reached a high of \$2.13 in May of 1912. In 1915 the Maine farm price was 67 cents per cwt. in the fall and advanced to a high of \$1.73 per cwt. in 1916. In September 1916 the Maine farmers received an average price of \$1.58 per cwt. which advanced to \$4.53 in May of 1917 and to \$4.67 in June.

In 1919 the Maine farmer received an average of \$2.07 per cwt. in September and this price advanced to \$6.10 per cwt. in May of 1920 and to \$6.65 per cwt. in June.

In 1925 the Maine growers received an average price of \$1.42 per cwt. in September, which reached a high of \$5.33 in April 1926 and dropped sharply to an average of \$3.33 in May or a loss of \$2.00 per cwt. in one month's time, which was followed by another drop of \$1 as the average price in June 1926 was \$2.33.

There were other trends in other directions. In 1931 the Maine farmer's price averaged 67 cents per cwt. in September of that year and dropped to 45 cents in May 1932 and to 25 cents in June 1932.

These sharp price changes occurred when there was no trading on any futures commodity markets.

During World War II the U.S. Government realized that they needed an adequate supply of potatoes and support prices for potatoes were established. I have lost some of my records of the earlier years, but the support price for Main potatoes U.S. grade No. 1, sacked, onboard carrier, were as follows:

(The chart referred to follows:)

CROP YEAR AND SEASON—SUPPORT PRICE PER HUNDREDWEIGHT, U.S. GRADE NO. 1, F.O.B. CARRIER

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April
1946-47.....	1.90	2.00	2.10	2.20	2.20	2.20	2.20	2.20
1947-48.....	2.30	2.40	2.60	2.80	3.00	3.00	3.00	3.00
1948-49.....	2.60	2.70	2.85	3.05	3.15	3.20	3.25	3.25
1949-50.....	1.55	1.55	1.70	1.90	2.10	2.15	2.20	2.20
1950-51.....	1.40	1.40	1.50	1.60	1.70	1.80	1.85	1.85

Mr. MERCKER. The price support ended with the 1950 crop. During 1950 the growers in the United States planted 1,713,400 acres which produced a crop of 259,112,000 cwt. Growers were very apprehensive in connection with planting their usual acreage in 1951 and reduced their acreage about 19 percent, planting 1,373,000 acres, producing a crop of 195,776,000 cwt. or 24½ percent less than the previous crop and it was the smallest crop reproduced since 1936, when 194,373,000 cwt. were produced.

Prices naturally responded quickly from a low of \$1.35 per cwt. to the Maine farmer in September of 1951 to \$4.50 per cwt. in May 1952 and to \$5.50 in June 1952 and averaged \$3.03 per cwt. for the entire Maine 1951 crop.

This sharp advance interested the Office of Price Stabilization and they issued ceiling price regulation No. 113, effective January 19, 1952. The ceiling prices for U.S. No. 1 grade Maine potatoes f.o.b. shipping point per cwt. were:

February, \$3.60; March, \$3.70; April, \$3.75; May, \$3.80; June, \$3.80.

Adjustments were provided for from this base price for size, grade, packaging, and size of container.

I have presented the preceding statistics to illustrate that prices do change from the time the crop is harvested to its final disposition. The 1964 U.S. potato crop of 241,076,000 cwt. was small and compares with the large 1963 crop of 271,158,000 cwt.

The small 1964 crop averaged \$3.50 per cwt. to the U.S. grower and in Maine the growers averaged \$3.83 per cwt. The large 1967 potato crop of 305 million cwt. resulted in low prices and the U.S. Department of Agriculture initiated a program to divert the excess. Maine growers averaged a price of \$1.36 per cwt. which compares with the U.S. average price of \$1.86 per cwt., which includes all potatoes, including those marketed from the spring and summer crops. Idaho growers averaged \$1.31 per cwt. for their late crop. The Maine farmers realized \$2.20 per cwt. for their 1969 crop which compares with the average for the United States as a whole of \$2.23 per cwt.

In previous testimony before this committee on this bill, it was pointed out that there are 1,700 potato growers in Maine, according to the latest census information. In checking with the Regulatory

Branch of the Fruit and Vegetable Division of the Department of Agriculture, I was advised that there are about 247 licensed dealers under the Perishable Agricultural Commodities Act in Maine. This would indicate tremendous competition among these dealers to sell the crop as the average would be about seven growers to one dealer. This does not include those growers who sell their own production, competing with these other sellers. This certainly indicates that there is keen competition in Maine to sell and shows a lack of concentration of selling power.

Before World War II there were several dealers in Maine, two in Norfolk, Va., and one in Savannah, Ga., who would charter an ocean-going vessel and load it with potatoes at Searsport, Maine, and transport a cargo containing from 200 to 250 carlot equivalents of potatoes to Norfolk, Savannah, Jacksonville, Fla., and occasionally to Gulf Ports. There is no one individual or organization in Maine who has chartered such a vessel in the past number of years. The last ones we know of where chartered by the late Guy W. Capps of Creeds, Va.

The potato industry has shown a remarkable growth in per capita consumption, the low point being reached in 1956 when 180.1 million cwt. were used as food. This meant 103 pounds per person, of which 99 pounds were eaten in the fresh form and 4 pounds in the processed form, half of which was in the form of potato chips.

Preliminary figures for the 1970 crop shows a per capita consumption of 118 pounds, being about equally divided between the fresh form and the many processed forms available; 259 million cwt. were consumed as food from the 1970 crop. This indicates an increase of slightly more than 78,960,000 cwt. or almost 44 percent which is about a 3 percent increase per year. Of the total food use from the 1970 crop 131 million cwt. were in the fresh form and 128 million cwt. in the form of processed potatoes.

Maine has shared in the processing food utilization. From the 1961 crop, 2,908,000 cwt. or 8 percent of the total crop was used for food processing, exclusive of that used for starch and flour. In 1970 it was estimated that the use for food processing was equivalent to 10,069,000 cwt. or 28 percent of the total production.

In the years 1961, 1962, 1967, the U.S. Government provided a program to divert excess potatoes into starch, flour, and feed. These diversions are not included in these calculations.

The food processor requires a steady supply of potatoes from the time they are available at harvest throughout the season and works as many as three shifts per day 6 days per week. The more continuous the work period, the lower his cost of operation. When he stops working, the fires must be banked, the machinery cooled off and thoroughly cleaned. All of this results in an increase per pound of the finished product.

The potato processing industry has been most helpful in using labor available locally in potato-producing areas.

The State of Maine is the producer of good seed and plants more than one-third of its acreage for certified seed and foundation seed purposes. During the late 1920's and 1930's and particularly during the war period, Maine shipped many cargoes of potatoes by boat

from ports in Maine, chiefly Searsport, to Baltimore, Norfolk, Savannah, Jacksonville, and some Gulf of Mexico ports and many of these cargoes include dcertified seed for planting in the early potato-producing States.

The processor wants to have ample stocks in order to meet his future demands so that he can process potatoes into spring and summer months. This necessitates carrying a larger supply of stocks of potatoe that are treated with sprout inhibitors so that they will carry better into the spring and summer months. This is one reason why there is a tendency to carry larger supplies after the March 1 stocks report as many other potatoes intended for the fresh market are treated with sprout inhibitors to extend the marketing season into June or later.

Futures trading in potatoes supplies a sales outlet for Maine potatoes all year round. Futures trading has advertised the name of Maine in all of the potato-producing areas of the country and beyond our country's borders. This affords a pricing mechanism both to the buyer and seller of Maine potatoes.

The New York Mercantile Exchange has met every reasonable suggestion as to making changes in the methods of trading and delivery. I personally met with their board of directors many years ago and made the following suggestions, which were adopted:

1. More delivery points.
2. Delivery of potatoes not only in 100-pound bags, but also in 50-pound bags.
3. Have a field man located in Maine to explain the methods of futures trading.
4. Permit expit trading.
5. Notice of delivery must be given at an earlier date or hour.
6. No new deliveries may be initiated at point of origin later than the 25th day of the delivery month.
7. All deliveries to be made in protective vehicles and reinspection permitted to be made at more points.
8. All deliveries shall carry storage-in-transit privileges.
9. The seller shall make available to the buyer one reconsignment privilege.
10. The seller shall allow the buyer 1 free day demmorage from date of final delivery.

Maine could help its own position by adopting a marketing agreement, which has many possibilities. Not only could the marketing agreement regulate the quality and grades of potatoes marketed and shipped, but it also could contain some provisions regulating the number of carloads that could be shipped during certain periods, even on a weekly basis. Pricing could also be considered.

As mentioned before, when we had considerable enterprising ability in Maine, its distribution was over a much wider territory than is currently indicated. We had fluctuations in prices long before futures trading started on the contract markets. However, with the many changes taking place in the processing field and the generous supply of processed potatoes available, this will always guarantee the consumer an alternate supply of potatoes and its products, and eventually reach the point, as it has in most of the European countries, where price fluctuations are not very wide.

For the reasons stated above, I do not believe that H.R. 7287 should be enacted into law.

Thank you, gentlemen, for your time and your consideration of these remarks.

Gentlemen, I thank you very much for permitting me to read my statement.

Mr. SISK. Thank you, Mr. Mercker. If you will just move aside for a moment, we shall now hear from Mr. Charles L. Frazier, director of the Washington staff, National Farmers Organization.

**STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON
STAFF, NATIONAL FARMERS ORGANIZATION**

Mr. FRAZIER. Thank you, Mr. Chairman.

Mr. SISK. Mr. Frazier, we are glad to welcome you to the committee and glad to receive your statement.

Mr. FRAZIER. Thank you, Mr. Chairman. In the interests of conserving time for the committee, I would like to assume that my statement will be made a part of the record.

Mr. SISK. Without objection, the statement will be made a part of the record.

Mr. FRAZIER. With your permission, I should like to summarize our views very quickly.

I am here because the National Farmers Organization supports our members from Aroostook County who have considered the purpose and intent of this legislation very carefully and they have endorsed it strongly. As you may gather, they are here with other growers in support of the bill. We urge its passage.

In listening to other witnesses, yesterday and today, I am greatly impressed with two or three points and I should only like to emphasize them for your benefit at this time.

Potatoes are a perishable commodity. They must be moved quickly. They are heavy. They cannot be widely shipped and handled and, if you please, be kicked around as can some other commodities. So we would not take the same attitude necessarily toward futures trading in grain or cotton or some of the other commodities, in which futures contracts may actually contribute to the marketing process and stability of the crop, and perhaps stability of price for the growers. But we are convinced that the futures trading does not serve as an aid so far as growers are concerned in the case of potatoes.

I would like to close quickly with just one or two questions. We have heard lengthy discussion of the fact that the exchanges are non-profit organizations. Yet we heard one representative of an exchange yesterday, no doubt a reputable and capable man, make the statement that they had spent millions undertaking to educate producers as to the value of utilizing futures contracts.

If these futures contracts are so valuable as a marketing aid for growers, I find it hard to believe that they would have to spend millions to explain them to farm producers.

Our farmers are quite willing to spend their money for all of the tools of efficient farming today, and I am sure if future contracting were a great aid to them, they would understand it and pick it up rather quickly, and no one would have to spend millions of dollars explaining it to them.

I thank you, sir, for your time.
(The complete statement of Mr. Frazier follows:)

STATEMENT OF CHARLES L. FRAZIER OF THE NATIONAL FARMERS ORGANIZATION

Mr. Chairman, and members of the committee, I appreciate this opportunity to appear for the National Farmers Organization in support of H.R. 7287. As you know, the membership of the National Farmers Organization is made up entirely of farm owners and operators. Our attitude toward this legislation is in keeping with our efforts to bargain for better prices on behalf of our members with the processors and other purchasers of the major farm commodities.

It should be noted at the outset that the members of the Aroostook County NFO have considered carefully the proposed legislation and recommend its adoption. These growers have substantial financial commitments in the production of potatoes and as all of us are aware, they have been selling potatoes at less than the cost of production. These producers provide an excellent example of the economic consequences of improved efficiency in farming. It is a highly specialized type of production and costs have risen for equipment, labor and handling of the crop. In their efforts to help themselves in obtaining better prices, these producers are of the opinion that futures trading in potatoes is more of a hindrance than an aid.

In addition to the difficulty resulting from rising costs of production and low prices, the potato grower also faces the disadvantage of undertaking to market a crop at prices that are occasionally influenced by speculative activity.

The results of a market survey conducted by the Commodities Exchange Administration of the USDA develop a number of facts on the trading of potatoes on the New York Mercantile Exchange. Many numbers will not be repeated here in the interest of conversing the committee's time. I want to emphasize, however, a viewpoint briefly developed by other witnesses and reinforced by this study. Almost four out of every five people dealing in potato futures appear to be speculators and the number of producers using the exchange to hedge the sale of their crop has declined substantially.

We recognize that there may be some value or advantage in hedging for those who have a legitimate operation to protect as handlers or users of potatoes. We think those who desire a continuation of futures trading on potatoes must acknowledge, however, that is a relatively small crop in comparison with some of the major commodities on which future contracting is customary. It is a perishable commodity with time limitations on the handling and sale of each crop. As a consequence, the cash prices of potatoes are more susceptible to unusual influences by speculative activity.

Briefly stated, it is highly probable that the grower viewpoint is correct—cash prices are unduly influenced by speculative activity—the value of futures contracts to those with a legitimate interest in potatoes is overshadowed by the speculative activity—and the harm done to producer prices is just one more unnecessary burden for the growers who are trying to pay their bills and keep farming.

We do not condemn all futures trading. It is recognized that this is properly a part of the marketing pattern in the grain trade, for example. And we do not necessarily attribute ulterior motives to all who have defended the exchange activities on potatoes. We believe, however, that the case is strong for termination of exchange trading on potatoes.

There is a danger that a very large proportion of potato growers will be driven out of production of this crop if prices continue at their current low levels. If elimination of potato trading on the Mercantile Exchange will contribute to price stability for growers and users, this valuable food source for many people will be protected. It is urged that favorable action be taken on H.R. 7287.

Mr. SISK. Thank you very much, Mr. Frazier. We appreciate your statement.

If you would stand aside now, we shall hear from Mr. William F. Brooks, counsel for the National Grain Trade Council.

Mr. Brooks, we are glad to welcome you back to the committee. We are always glad to hear from you.

**STATEMENT OF WILLIAM F. BROOKS, PRESIDENT AND GENERAL
COUNSEL, NATIONAL GRAIN TRADE COUNCIL**

Mr. BROOKS. Thank you. I shall read my statement. It is very brief. Then I have two other points.

I understand that there were 17 witnesses here yesterday who, in the interest of saving the committee's time, agreed to submit their statements for the record. These are 17 who, I believe from their statements—and I have not read them—would have stated that they did use this Mercantile Exchange as a tool in marketing their potatoes, and they found it a very valid and helpful agency in their own personal and business affairs.

Second, in view of the questioning, I would suggest that a comparison between trading in futures contracts and trading in securities is not at all apt. This is a subject, however, which will require a rather substantial time to discuss in depth, and I would not attempt to do so today.

Now, the National Grain Trade Council opposes the enactment of H.R. 7287, a bill "to prohibit trading in Irish potato futures on commodity exchanges." We appreciate this opportunity to submit our views on this pending bill.

The members of the National Grain Trade Council believe in the merits and principles of open and competitive markets for the distribution of agricultural commodities. At recognized commodity exchanges where futures trading is regulated by the Commodity Exchange Administration, impersonal, economic, and forward prices and pricing information are available. This regulated trading in our judgment benefits producers, handlers, processors, and consumers by offering them economic opportunities which, absent regulated futures trading, would not be available.

Alex C. Caldwell, administrator, Commodity Exchange Authority, in testifying against H.R. 7287 on January 20, 1972, said: "The hedging facilities of the potato exchanges are being used by many growers, cooperatives, shippers, chain stores, and processors." Our information is that these hedging facilities and other facilities are used by some producers and handlers and processors as low cost credit tools to finance the production, growing, storing, and processing of potatoes and that this can be done and is done now at no expense to the government.

During the 89th and 90th Congresses, 4 short years ago, the House and Senate Committees on Agriculture held extended and extensive hearing on administration sponsored legislation to strengthen the regulatory scheme of the Commodity Exchange Act and the regulatory activities carried on under that act. At no point in those comprehensive hearings or in the legislative process resulting in Public Laws 90-258 and 90-418 was any suggesting made that trading in Irish potato futures on commodity exchanges be prohibited.

Public Law 90-258 was a major and general revision of the Commodity Exchange Act and became law in February 1968. Public Law 90-418 became law later in 1968. This last public law added futures contracts in frozen concentrated orange juice to a long list of commodities subject to regulation and supervision under the act.

It is appropriate to ask if new economic and cogent reasons exist now to prohibit trading in Irish potato futures. Apparently no reason or reasons existed to seek that prohibition when Congress was considering extensive changes in the Commodity Exchange Act during sessions of the 89th and 90th Congresses while taking action to add a new commodity to those already regulated.

We believe that futures contracts traded and supervised by the Commodity Exchange Administration under the Commodity Exchange Act are valuable economic tools for the producers, handlers, and processors of those commodities traded at organized market. As long as futures trading in commodities or a commodity is active, viable, and liquid, a presumption exists that Congress should not act to deprive producers, handlers, and processors of a valuable economic tool. Repeatedly the Commodity Exchange Authority has found that trading in Irish potato futures on commodity exchanges has been conducted in active, viable, and liquid markets. And if the nature of this trade were otherwise, the futures market would cease to exist.

In our opinion, if the number of commodities for which supervised and regulated futures trading on recognized commodity exchanges were to be increased, all segments of the nation's economy would benefit. In our opinion, Congress should not act to discourage, let alone to eliminate trading in futures contracts. In our opinion, H.R. 7287 should not be enacted.

Thank you, Mr. Chairman.

Mr. SISK. Thank you for your statement, Mr. Brooks.

Now, we have all three of the gentlemen at the table. The committee will proceed to ask such questions as they may desire.

The gentleman from South Dakota, do you have any questions of these three witnesses?

Mr. DENHOLM. I will ask Mr. Brooks, a general question as to the trading but first—

I want to thank Mr. Frazier for commenting on a matter of interest to me. I recall a statement made by a witness yesterday that millions of dollars had been spent in an attempt to educate growers in the proper use of futures trading.

Now, the testimony yesterday and today from the New York Mercantile Exchange indicates that there is no excess profits in the exchange. Where do you suppose Chicago would get millions of dollars to educate the producers in how to use the futures trading market?

Mr. BROOKS. My understanding is that under the rules of these exchanges, members and particularly clearing members—by clearing members, I mean those who are qualified to clear trades in a clearing house—do you understand what the function of a clearing house is?

Mr. DENHOLM. Yes; I understand it. I want you to make the record. You may proceed, if you know.

Mr. BROOKS. They get it from commissions. The brokers charge commissions of customers, whether they be farmers, whether they be processors, whether they be exporters, or whoever they may be. Then they pay to the exchange, and probably to the clearing house a portion of their commission for the services the exchange renders

by having available to them a floor to trade on, by having facilities for them to use for the benefit of their customers. In this way, they can at times, as I understand it, quite understandably build up a rather substantial amount of reserve, part of which I assume they might use to indicate to others outside the market who might not understand that function just what the benefits would be from using the market services through brokers.

Mr. DENHOLM. Isn't that sales promotion?

Mr. BROOKS. I would assume it would come under the head of public education.

Mr. DENHOLM. Do you know how much money is spent in promotion—or education? Is it several millions annually?

Mr. BROOKS. I hesitate to think it approaches anything on that order. I have no idea what it might be. You heard the gentleman from the Minneapolis exchange say yesterday that one of the local State farm bureau marketing agencies in the area served by the Minneapolis market was carrying on a public education program of its own. So it is not only the exchanges that do this. It is those marketing agencies, sometimes controlled by farmers, that want to educate their members.

Mr. DENHOLM. I think our interest lies in the area of whether or not the future exchange transactions of the potato industry are beneficial to the producers or consumers. Do you have an opinion on that?

Mr. BROOKS. My opinion is that generally, and I think it can be substantiated by the various studies—I know it can be—that the existence of an active, viable futures market where there is a steady volume of trade does tend to narrow the margin between a producer and the ultimate consumer.

Mr. DENHOLM. Does it do anything to increase the efficiency in marketing of a commodity?

Mr. BROOKS. It certainly does.

Mr. DENHOLM. How?

Mr. BROOKS. It has a market available 5 days of the week where people are participating whose judgments are coming together, conflicting, if you will, and establishing a barometer as to their ideas of values in the future.

Mr. DENHOLM. Does that, on a daily basis, actually involve the commodity?

Mr. BROOKS. Yes; it does involve the commodity, because one of the factors that goes into the determination of my judgment and yours, if you happen to be a trader, as to what the future of this is worth is the value of that cash commodity today. And there is a rule which generally works out that as a delivery month approaches, the cash market and the futures prices will come together.

Now, the futures may go down or they may go up if the cash is high.

Mr. DENHOLM. Well, the record indicates that there is much trading and few deliveries.

Mr. BROOKS. This is not at all unusual in futures markets.

Mr. DENHOLM. I am asking you how that enhances the actual marketing of the commodity of the growers?

Mr. BROOKS. Well, first of all, it gives the producer knowledge as to what the great mass of people, if there are enough people participating in the futures trade, what they believe the value of the commodity is going to be 2 months, 3 months, even 5 months—whatever the period is from now. This enables him to make marketing decisions—shall I market it all today, market some of it now and some later, or should I agree to market some of it now and some of it later depending on the futures contract?

Mr. DENHOLM. I understand there can be buying and selling every day?

Mr. BROOKS. Yes, sir; during the marketing period.

Mr. DENHOLM. Can the growers make actual deliveries during that time?

Mr. BROOKS. Deliveries come only in the contracting months. But if I am a farmer and I happen to have, say, the equivalent of 50 cars of grain in my warehouse and I want to hedge this, as Mr. Wilkens described yesterday, the nearby contract at Chicago, or wherever it may be, finding that price is satisfactory to me, I then enter into a futures contract, a hedge, if you will, agreeing to sell and deliver in that month as many of those cars of corn as I have in my possession in the warehouse or in my bins.

Now, the cash market, let us say, is nearly as good as this futures price, and I can begin to sell my commodity at that cash market price. I sell two cars today, I go into the futures market, and I buy back two contracts for the equivalent of two cars, at whatever that futures price is.

Mr. DENHOLM. Is it possible for such a market to be carried on without any producer participation at all?

Mr. BROOKS. It would not last very long.

Mr. DENHOLM. Well, is it absolutely essential that producers participate in futures trading to make it work?

Mr. BROOKS. No, I am not saying it is absolutely essential, because you have other types of hedges. But unless you can find a market where producers in fact to a degree take advantage of these hedging opportunities, then I do not think you are going to find a very liquid market.

Mr. DENHOLM. Is it your testimony, then, that if all the potato producers were to get out of the futures marketing, it would not endure?

Mr. BROOKS. All the potato producers?

Mr. DENHOLM. Yes, quit it altogether.

Mr. BROOKS. I would not want to go that far, but I would have to state that as long as this market is around, I think you will find as the banker from Maine testified yesterday, that some institutions—nongovernment institutions—regard this as a very effective credit tool and would like to insist—require in fact—that their loans be secured by a firm sale in the futures market.

Mr. DENHOLM. Well, of course the notion that futures trading is a credit tool is a very weak argument. We have gone through extensive hearings on farm credit and we have never known farmers in this country to be in greater need than they are now as far as credit is concerned. I think you are aware of that, are you not? I do not know a banker that will finance futures without a mortgage—

Mr. BROOKS. The banker here yesterday said that his client had run out of credit at the Farm Credit Agency, but he was willing to lend money to him on the basis of the then existing futures price, and did lend money to him.

Mr. DENHOLM. Let me ask you this, and I do not want to be facetious in asking the question, but if you did not have potato producers participating, I think you suggested the futures trading may fail, did you not?

Mr. BROOKS. No, I do not think it would.

Mr. DENHOLM. Do you think you could perpetuate the futures market absent of growers?

Mr. BROOKS. I think there are enough processors and merchandisers and handlers whose business arrangements would require the existence of a hedging tool.

Mr. DENHOLM. I thought you might say that.

Now, having said that, as long as those are the gentlemen who are dominating it—

Mr. BROOKS. They are not dominating it, may I interrupt.

Mr. DENHOLM. Well, who is dominating it?

Mr. BROOKS. There is nobody dominating the futures market. If by dominate, you mean control.

Mr. DENHOLM. No, I am asking about who are the major purchasers. Who buy the futures? Who uses the futures trading system?

Mr. BROOKS. Well, there is a breakdown here in this particular document.

Mr. DENHOLM. The evidence indicates that the producers use it the least of anybody.

Mr. BROOKS. Numerically, this would seem to be the case.

Mr. DENHOLM. And that being the case, they are all victims of the result of the price that is established by somebody else, are they not?

Mr. BROOKS. The price is not established by somebody else; the price is established by a variety and a large number of people.

Mr. DENHOLM. Well, I do not want to argue with you, Mr. Brooks—

Mr. BROOKS. I think the choice of words is very important, Mr. Denholm.

Mr. DENHOLM. Right, and you have chosen well—but in order for a futures market to exist, it has to be established by somebody buying the futures, does it not?

Mr. BROOKS. By a large number of people.

Mr. DENHOLM. But not producers?

Mr. BROOKS. Not necessarily producers. No one body establishes a price.

Mr. DENHOLM. But the record indicates that there are few producers buying in the futures market.

Mr. BROOKS. This last report would so indicate, percentagewise.

Mr. DENHOLM. Well, I want you to clarify for me that producers do not have any control over what that futures market is going to be. It is going to be determined upon your promotions and sales to somebody else.

Mr. BROOKS. I beg pardon. The exchange does not engage in any buying and selling operations.

Mr. DENHOLM. I am sorry, sir—I did not say that.

Mr. BROOKS. Well, you said by your promotion.

Mr. DENHOLM. Certainly you are going to have to sell them to somebody in order to establish a futures market, are you not? Otherwise there would be no futures market.

Mr. BROOKS. You have to have willing buyers and willing sellers at all times; otherwise the market hits the bottom or top and stops.

Mr. DENHOLM. That is correct. And you have indicated that producers are a small percentage of the total buyers?

Mr. BROOKS. This is what this last report indicates.

Mr. DENHOLM. Are the producers in Maine or Idaho or wherever they may be subject to the change of that market that is caused by nonproducers participating in the futures exchange?

Mr. BROOKS. Well, I do not think—I do not like to quibble with you or argue with you either.

Mr. DENHOLM. Is that true?

Mr. BROOKS. No, it is not true.

Mr. DENHOLM. All right. You just state the truth for the record.

Mr. BROOKS. I say the futures registered or the prices registered in the futures market in a given futures contract or futures contracts constitute the combined judgment of a great many people, including producers, even though it may be a small proportion.

Mr. DENHOLM. Well, permit me to say for the record that I have read that comment in every sale promotion of futures trading brochure printed. I am not impressed with the answer. There has been more hedging at this witness table in the last 2 days than in the futures market in Chicago or New York. Thank you, sir.

Thank you, Mr. Chairman.

Mr. SISK. Does the gentleman from Illinois have a question?

Mr. FINDLEY. Yes.

Mr. Frazier, I am very glad that you presented testimony here today. We have a good many NFO members in my district and throughout the State of Illinois. There was a period when NFO was not too active as a witness before this committee. I am glad to see this activity on your part. I think it is entirely appropriate and very helpful to us.

I am sure that potato producers have serious price problems. In the 7 years, altogether, that I have been on this committee, potatoes have been a topic of great price concern on many occasions. We naturally hear from potato producers when the price problems are the most severe.

It is natural also I think for producers in a time of low prices to try to find the culprit and to make the attack on it, and the responsibility we have here is to make sure that the target is the right one and that we do not inadvertently hurt something that is really, in the long term, helpful to the producer.

With that in mind, I would like to have you elaborate a little on the statement at the bottom of the first page of your testimony that these producers—meaning Maine potato producers—are of the opinion—that futures trading in potatoes is more of a hindrance than an aid. I presume from that that you mean that it really hurts the

income of the potato producers to have in existence the futures trading.

Can you tell us more specifically how the price disadvantage occurs?

Mr. FRAZIER. I shall be glad to try, Congressman Findley.

As has been mentioned several times by others in testimony here, the potato contracts, I believe, are traded for November, March, April, and May. It is a relatively short marketing season for the crop—unlike, for example, our grain in the Midwest, which we may hold in long time storage, and it may move this year or even be carried over for another year or two in farm storage quite safely. Potato producers, as I understand it, cannot really do this for economic reasons and for reasons of quality maintenance and so on.

So that, as I understand these men who are the producers, with this crop that must come out of the cellars and must move, the ups and downs of a futures market in the closing period of trading may be quite influential on the cash prices that may be offered them from day to day or week to week when they do need to move their potatoes.

Now, admittedly, they might get a break; someone might catch it on an upswing of the market, and he might profit if he picked the right time. But it is my understanding that these men know, that they cannot, for example, stabilize potato prices at desirable high levels year after year solely by taking potatoes off the exchange—I do not believe any of them would argue that. I think they realize that eventually, they must have either a stronger marketing order or some production control or some means of controlling their crop if they are to have good prices, season after season. But short of having such a program in which they can safeguard their prices, then it is my understanding that they both believe that futures trading really harms them more than it helps them.

Mr. FINDLEY. During this relatively short marketing period to which you refer, there is ordinarily a pretty substantial price fluctuation, am I correct?

Mr. FRAZIER. I believe there is, sir; yes.

Mr. FINDLEY. Is this on the order of about \$1 a hundred weight or more?

Mr. FRAZIER. I do not have any schedule of prices right here with me. I shall be glad to try to obtain them for you, sir.

Mr. FINDLEY. Does the record of price fluctuation in periods when the potato futures trading has been permitted, as contrasted with periods when it has not been permitted, show that the price fluctuation is any greater because of the existence of a futures market?

Mr. FRAZIER. It is my impression, my understanding that the market is more highly erratic in the late spring, in the period when contracts are maturing, and substantial action, as they say, in the futures market may reflect on the cash prices for the potatoes that are yet to come into market.

Mr. FINDLEY. Could I ask the other gentlemen if in their experience they have found evidence that the existence of the futures market causes a greater fluctuation in the price during the normal marketing season? Does either of you gentlemen care to respond to that?

Mr. MERCKER. It depends on the size of the crop and the general

situation. If we have, say, two low price years, where the prices are moderately low or very low, then the growers will reduce their acreage by 6, 7, 8, maybe more, percent. In the following years, I have illustrated here, we have, say, the large carryover of the old crop from the last preceding big crop. When that kind of reaches its end, we may have violent fluctuations between April, May, and into July, and then a drop.

Mr. FINDLEY. Now, that is true whether a futures market exists or not, is that your point?

Mr. MERCKER. It has been true since, I think I went back to 1911 in my record. Unwittingly, I left my monthly prices in the office. But we have had violent price fluctuations from a long, long time back. I tried to illustrate that now with our use of per capita consumption, half of which is processed, and a big reservoir of processed foods, we may not have such great fluctuations in price from now on; it will be more stable as they are in Europe. So I think we will become more moderate.

Mr. FINDLEY. So am I correct that your feeling is that the existence of a futures trading market in potatoes really has no significant effect on the fluctuation of price during the marketing year?

Mr. MERCKER. Not too much; no, sir. All eyes are focused on future trading, of course, but we, in a way, always had futures trading.

I hate to go back so far, but during the period of the twenties and thirties when, say, we had one prime salesman, the finest salesman in the country, out of Norfolk, Va. He would probably finance one-third of the Maine crop, 75 percent of the North Carolina crop. And he did all by advancing a ton of fertilizer and some other things, and for each ton of fertilizer, he got so many packages of potatoes back, generally in the South, the first that were harvested, which was on the high market. We have always had trading of that kind.

Since we have futures trading on the board, that has been practically eliminated, that trading of supply materials for the finished product, or the product grown.

Mr. FINDLEY. Well, this still leaves me in doubt as to the real facts of the case as to whether the futures market really hurts the income of the potato producer. We do not produce potatoes in my part of Illinois, at least to any extent that I am aware of, but the farmers use the futures market for other commodities very heavily. I realize there is quite a difference in the perishability of soybeans and corn and wheat compared with potatoes. But I remember vividly, I think it was two summers ago, the futures in July was very strong, up around \$1.40, and some of the very far-looking farmers sold their corn at \$1.40. Then it dropped out of sight, below \$1. Those who had had the availability of the futures market and used it were certainly far better off than those who did not use it. I cannot conceive of the farmers of Illinois being better off without the existence of the futures market for their grain.

Now, I realize that my farmers do not grow potatoes. There are big differences between the crops. But I would think in the basic elements, there would be a lot of parallels in the two situations. Until I am convinced that futures trading really hurts the income of the producer, I do not think I would be doing the right thing to support this bill.

I would be glad to have any comments from any of the three of you on that point.

Mr. FRAZIER. Well, not having a great number of figures and numbers with me, as I said a moment ago, I cannot produce a great, quick array of facts for you. But I do think of two things that may be helpful, sir.

Earlier in the testimony, one of the other witnesses referred to a USDA Report, Marketing Survey Report No. 2. The Chairman was going to make it a part of the files for your consideration. I notice on pages 20 and 21, there are some charts that relate the amount of short hedging as it swings through the months of several years, here, 1964 through 1971, and the relationship of Maine cash prices to the futures market as they are simultaneously quoted for each of these periods. There is, of course, a remarkable correlation between these two price schedules.

I think the point I am trying to make is simply this: As compared to our wheat or our cotton or our corn, that is widely held, widely traded, a large part of the crop moving to export and other uses, there would naturally be, if I may coin an expression, a bringing together of market forces in futures trading that might actually contribute to stabilization of the price as you go week-to-week, month-to-month through the years. But if I understand this thing correctly in the case of potatoes, being a smaller crop held in fewer hands, even counting the jeweler and the blacksmith and the Florida housewife, and so on who may play in the futures game, since it is held in so few hands, it might at least be more susceptible to swinging back and forth under the influence of a few smart brokers.

And I, of course, have no record to present and I make no accusations at all of the members of the trade. Of course, most of them would surely be honest men and the trading legitimate and in accord with the rules. But at least I believe a number of our producers are convinced that this potato futures market is at least susceptible to influence by a smaller number of men trading in the market, and they at least do fear the consequences that this may bring on their cash prices.

Mr. FINDLEY. But the futures market is certainly out in the open. You see what is going on, you see the prices, you see the quantities. In the absence of a futures market, is it not also possible, at least, that the transactions, which would be less in the open, less on the record, less visible to all interested parties, could be really manipulated by still fewer hands and in less obvious ways, to the disadvantages of the producer?

Mr. FRAZIER. Possibly, sir; but I believe we have in this country today a pretty good system of market news reporting on cash trading, you know, both in grains and in these perishable commodities. So I think our producers have available to them pretty good quotations on cash trades, surely.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. SISK. Thank you, Mr. Findley.

Just one or two very brief questions.

Mr. Mercker, just for purposes of the record, I think we should ask, in regard to the Vegetable Growers Association of America, you are not representing them here today?

Mr. MERCKER. No, that is right.

Mr. SISK. You are here only representing yourself?

Mr. MERCKER. That is right.

Mr. SISK. I want to be sure because you have been here previously in support of some of the legislation that we have now.

Mr. MERCKER. Yes, several years ago.

Mr. SISK. I want that on the record, to be sure we understand. It is not necessary for you to have an opinion, but I wanted to be sure that we have it clear on the record that the organization of which you are executive secretary is, in fact, not opposed to the legislation.

Let me post one quick question to you, Mr. Brooks, or to any of you who want to comment on it. Let us assume for the moment that my broker called me last night and told me that he thought a purchase of Maine potatoes on the May futures might be a good investment. So I arrive here in the committee and suggest to some of my colleagues that I understand there is a good chance that potato futures may be going up, I am going to buy a thousand carloads for May. I am requesting my broker to purchase a thousand cars. The 36 members on this committee have some confidence in my broker, so they also purchase. We buy 36,000 cars of Maine potatoes today.

What would the normal effect be on futures on a purchase, say—there may have been a number of other purchasers. What would be the effect on the market for May? Could you comment on that, Mr. Brooks?

Mr. BROOKS. I have no idea.

Mr. MERCKER. 36,000 cars? The price would go through the ceiling.

Mr. SISK. All right, let's assume—

Mr. BROOKS. The limit, I understand—you know, the commodity exchange puts limits on the extent of trade.

Mr. SISK. I recognize there are. But you understood I am setting up a hypothetical case. If it were grain, it would be different amounts. But we are talking about Maine potatoes today, and for purposes of illustration, the price would substantially go up, is that not correct, regardless of limitation? I know you do have limitations, but the price would go up. It would not go down? It would go up?

Mr. MERCKER. It would go up, yes sir.

Mr. WATTS. Not necessarily.

Mr. SISK. Why would it not go up?

Mr. WATTS. Because there would be sellers.

Mr. SISK. I was going to ask you a followup question. Let us assume that the next week, we went in and sold 36,000 carloads of Maine potatoes.

What would be the effect then?

I think in line with what Mr. Mercker said, he kind of let the cat out of the bag, the price would go through the floor.

Now, what I want to know—that brings me to that question that I want to ask—what in the world, what conceivable concern or interest would there be in the effects upon a purchase, whether it was from this group or some other group, of destroying or knocking the bottom out from under future prices for May—what effect would supply and demand have? Is it not a fact that really, these future tradings really have little or no bearing on supply and demand?

Mr. BROOKS. Oh, may I say that I think they are the greatest barometer of the results of supply and demand that you can find.

Mr. SISK. Well, there again we know—and I understand of course—that there are certain limitations and the market is regulated. But the point is that the opportunity is there to drive the market up or drive it down, depending on the benefits that will accrue to the purchasers or the sellers at any given point, without any respect or regard whatsoever about its effect upon the cash price to the producer who has to sell a perishable commodity. I am not talking about grain or cotton, which frankly I think fall into entirely different categories in futures trading.

Is that not a fact, Mr. Brooks?

Mr. BROOKS. Well, attempts have been made to make a case for perishables vis-a-vis storables. That one should be one way and one the other. I do not necessarily agree with it. I have seen grain markets start out pretty thin and all of a sudden, there gets to be some substantial interest because of some firm news as to market demands, and a lot of people go into the market. In the short run, when you get a sudden surge of buyers and sellers, there is a surge on the upside or the downside. But it does not last long.

Mr. SISK. Now, we had some testimony before this committee that 1 year—I think in 1970—there were 560,000 or some 500,000 odd carloads of Maine potatoes traded on the New York Mercantile Exchange. Well, the point I am making, Mr. Brooks, is that was many, many times the total amount of Maine potatoes produced. So what effect had that buying and selling of vast amounts of, really, paper, on the true value of Maine potatoes, and the production and consumption within this country? It had absolutely nothing, in my opinion.

That seems to me to be the crux of the concern that my producers have, and I have the feeling that the producers have, and I have the feeling that the producers of Maine potatoes have. They are willing to work on the basis of supply and demand to supply the food and fiber that the people of this country need, but not to have it arbitrarily affected through, let us say, capricious action on the part of individuals as speculators, completely separate and apart from the interests of the producer.

That, really, to me, is the guts of the question we are talking about here.

Mr. DENHOLM. Will the chairman yield on that point?

Mr. SISK. Yes, sir.

Mr. DENHOLM. Thank you for yielding, Mr. Chairman—I think Mr. McIntire made the statement about a man who had average good health all of his life, but had poor health on the day he died. You have stated in summary, Mr. Chairman, substantially that in conclusion.

Mr. SISK. Well, gentlemen, we appreciate very much your testimony here. I do not mean to beat anybody over the head. I recognize this is a controversial question. It has been before the Congress many times.

I notice some statement in here by—I believe you, Mr. Brooks—

that the 90th Congress had not recognized this in its amendments to the Commodities Exchange Act. Yet as you are, I am sure, aware, these people from Maine have been before this Congress many, many times, requesting the elimination of futures trading in Maine potatoes.

Mr. BROOKS. Yes, sir.

Mr. SISK. When I find the Governor coming down here and the State Legislature of the State of Maine unanimously on record on a position, and these people are all elected officials, it leaves me a little bit concerned. I understand the case that people representing the Mercantile exchanges have to make; I recognize their personal interest. We all have our own parochial interests to defend. I am not criticizing the right to defend that position. I think our position as members of this committee is to try to sift through this great amount of testimony and come up with what we hope, in the final analysis, will be action in the best interests of the producers of potatoes. That is the responsibility of this committee, in the final analysis, to the consumers of America.

We appreciate very much your attendance.

Mr. MERCKER. Mr. Chairman, I would like to add one thing. I did work exclusively on potatoes. I was assigned by the Government in 1929 through when I retired in 1956 and ran all these potatoes. I saw the heartbreaks, the good years, the moderate ones, the too bad ones, and bankruptcy in many, many cases. And to them, I did propose and wrote the Maine Potato Tax Act, to tax for potato advertising. Then I had to write one for Idaho, and I had to write 12 others. All told, I wrote 14 State tax acts, to get funds with which to advertise potatoes.

Now, I am entirely in sympathy with all of those programs and would like to see them continue. I just want to get that into the record, because I watched this situation carefully and I have tried to do everything that I can to help the potato grower at all times.

Mr. SISK. Well, thank you very much, Mr. Mercker.

I know we have some interest in potatoes out in California. My district is not a big producer, but I have an adjoining district which is a very large producer.

Again, the committee wishes to thank all of those of you who have taken an interest and who have been here, and I particularly want to express appreciation to the members of this committee, the ones who are here and the ones who have been here, for their patient and concern.

Mr. DENHOLM. May I make a comment before adjournment?

Mr. SISK. Yes.

Mr. DENHOLM. I thank all of the witnesses for appearing and I appreciate the contribution of each to the record, Mr. Watts, in particular, has been very cooperative. I am left in doubt as to exactly why such gentlemen have appeared in opposition to the bill. I think possibly the brokers should have been here instead of you. Obviously, I conclude that you really do not have any personal interest, that you have come here at your own expense to oppose the bill as a matter of principle.

Mr. BROOKS. I am located here. I am representing a group that is interested in open and competitive markets. We regard this as that sort of market and believe it should continue.

Mr. DENHOLM. Are you appearing here as an individual?

Mr. BROOKS. I am appearing here for the organization that I am employed by, the National Grain Trade Council.

Mr. DENHOLM. You have heard the testimony of Mr. Watts, have you not?

Mr. BROOKS. Yes, sir, I did.

Mr. DENHOLM. There is no profit incentive for you to be here personally or for your organization, is that correct?

Mr. BROOKS. This is correct.

Mr. DENHOLM. You are simply standing on a principle?

Mr. BROOKS. This is correct.

Mr. DENHOLM. That is why I commend you for coming and for your testimony today. It appears to me the brokers should be here instead of you. Thank you very much.

Mr. BROOKS. I am not representing brokers, do not misunderstand me.

(The following letters and statements were also submitted to the subcommittee:)

STATEMENT OF HENRY H. WILSON, JR., PRESIDENT, BOARD OF TRADE OF THE CITY OF CHICAGO

I am deeply grateful for this opportunity to participate in this hearing on H.R. 7287 which proposes to prohibit trading in Irish potatoes for future delivery on any commodity exchange in the United States.

As the world's leading futures market for agricultural commodities, our organization is devoted wholeheartedly to the strengthening and expansion of trade in futures because it is good not only for farmers, but for all segments of our society.

The closest approach to perfect competition in price making is offered by an active and well conducted futures market. Competitive price making in futures is diametrically opposite imperfect competition and monopoly. One of the great lessons of economic history is that market trading, fairly and freely conducted, is a continuing safeguard against those who rather prefer economic advantages through special or even monopolistic advantages. The commodity futures system became standard commercial practice in the United States because it is associated with the public interest. Moreover, it had proved its capacity—in spite of many trials and errors—to stand as a bulwark against monopolistic forces in marketing.

Perhaps even more significant, the futures trading system, notwithstanding imperfections, maintains equitable principles of trade. Futures trading on commodity exchanges have developed and expanded in importance because it grew up with, and proved adaptable to, our other free institutions. It became an essential segment of commodity marketing because the forces of supply and demand were focused into a changing central price available for one and all, because trading was conducted openly, and because anyone with financial ability to trade could participate in the market, and therefore in the price-making process.

By offering a proven system for shifting the risk from producers, handlers and processors to those who wish to assume them, the futures market makes possible low cost financing of the crop movement and reduces marketing costs for both producers and consumers. Thus, commodity futures markets serve the public well. These markets serve the world—there is no substitute. This is the reason for existence.

Free commodity markets in a free society are an essential ingredient of a free enterprise system.

The major purpose of Federal regulation under the Commodity Exchange Act is that of maintaining fair play and honest dealing in futures trading. It is of vital importance in maintaining equity in the pricing and marketing of farm products on all commodity exchanges and on all markets.

Farmers have a major interest in futures markets because the quoted futures prices provide an index as to values of cash or spot commodities.

The vital relationship and influence of futures prices on farm prices, between futures trading and farm marketing, was recognized by the Congress some 50 years ago. Basic portions of the present Commodity Exchange Act were laid down in the Grains Futures Act of 1922. The trade in potato futures, primarily involving potatoes grown in the State of Maine, is conducted primarily on the Chicago Mercantile Exchange. No potato contracts are presently traded on the Chicago Board of Trade. Nevertheless, we are deeply concerned by any proposal to abolish trading in a commodity, especially when the proposal does not provide economic benefits to any segment of our society, especially the farm families.

It is significant that USDA has examined and approved the overall performance of the futures market in Maine grown Irish potatoes. The two most recent statements by Presidential appointed officials are as follows:

On August 4, 1965, Secretary Orville Freeman stated:

"A futures market exists to provide services for persons engaged in the production, distribution and marketing of a given commodity. These services include the channeeing into one place, the market, of the many factors of supply and demand; evaluation of these factors; and wide dissemination of the resulting futures prices. The futures market also, through the participation of speculators, provides persons handling the actual commodity an opportunity through hedging to decrease the price risks which are inherent to the ownership of the commodity.

"Studies and surveys made by the Department indicate that the futures market in Maine-grown Irish potatoes, conducted by the New York Mercantile Exchange, provides these services satisfactorily. The potato futures market is sufficiently large and broad based to constitute a representative market. Available data indicate that persons engaged in growing, financing, and handling the Maine crop make considerable use of the futures market, and volume of trading has increased over the years. The volume of trading and level of open contracts in the past year were of record size, and traders in Maine making use of the market increased."

On September 24, 1971, Assistant Secretary Richard Lyng restated to above endorsement of futres trading in potatoes when he said as follows:

"Futures trading, as in many other commodities, fulfills a useful and needed economic function in the marketing of potatoes. The facilities of the exchanges are being used by many growers, cooperatives, shippers, merchants, chain-stores, and processors as a means of hedging price risks. The proportion of futures trading in potatoes reported as being used for hedging purposes compares favorably with that of other commodities. Potatoes have been subject to wide price fluctuations. By use of hedging, farmers, dealers, and others in the potato industry have been able to protect themselves from this price variability and able to market potatoes on an economic basis.

"The potato futures market also fulfills a vital economic function by furnishing a pricing basis open and known to all. The focusing of supply and demand forces into one place, and the wide dissemination of prices competitively determined in the market, are of benefit to all persons concerned with the marketing of potatoes."

Thus, analysis in the most recent Administrations reveal a significantly favorable record of responsible operation and performance for the futures markets in potatoes.

Currently, there is much interest and discussion of bargaining power for farmers. We have been much impressed by Assistant Secretary Palmby's recent suggestion which follows:

"Perhaps the most important suggestion for farmers next year is this: Look at the probable prices for your products at the time when they'll be going

to market. For example, at planting time next spring, look both at the current cash price and at the projected prices for next fall.

"And have storage lined up for your commodities in case it's needed. You cannot be sure of shipping in these days of uncertain harvests, boxcar shortages, and transportation tie-ups.

"I believe farmers should also look closely at locking in prices on a part of their production through futures contracts or forward-contract sales at elevators. These techniques can prove extremely useful to the farmer who wants to cut down on his market risks. Each producer will have to make his own decision on forward contracting, but it's a possibility that he should examine carefully."

The potato futures market, as do others, provides these alternative market opportunities for potato farmers to decide at what price and delivery month the sale will be made. Kill the potato future market and you kill this market intelligence and opportunity.

The imperatives of potato marketing are such that if Congress should eliminate futures trading in potatoes, forward sales could not stop. Actually, potato trading would revert to a more primitive form with major but well hidden flaws. The Irish potato market for forward sales and deliveries would be *unregulated*. The defects of forward selling which require either the buyer or the seller to bear the whole risk of loss which makes hedging impossible and which is not subject to Federal regulation should be clear. We do not profess that futures trading is perfect, but let us not destroy this closest approximation to perfect competition.

The greatest protection that farm people have against prices which are lower than the forces of supply and demand should reflect, is the fact that futures markets exist. They are public vehicles which enable people willing to use their own funds to take a market position which reflects a belief that the market should be at a higher level. This is true countervailing power.

We need, not a diminution, but an expansion in the "free market" environment where the normal price making forces will be permitted to function—a market which constantly measures, evaluates and finally equates with delicate precision on the forces of supply and demand into a price—openly arrived at.

We have made a serious effort to analyze the past arguments by the proponents of this legislation. They appear to be the following:

1. In the last effort to have potatoes eliminated from futures market trading in 1966, the representative of the AFBF cited as an argument in favor of the proposed legislation:

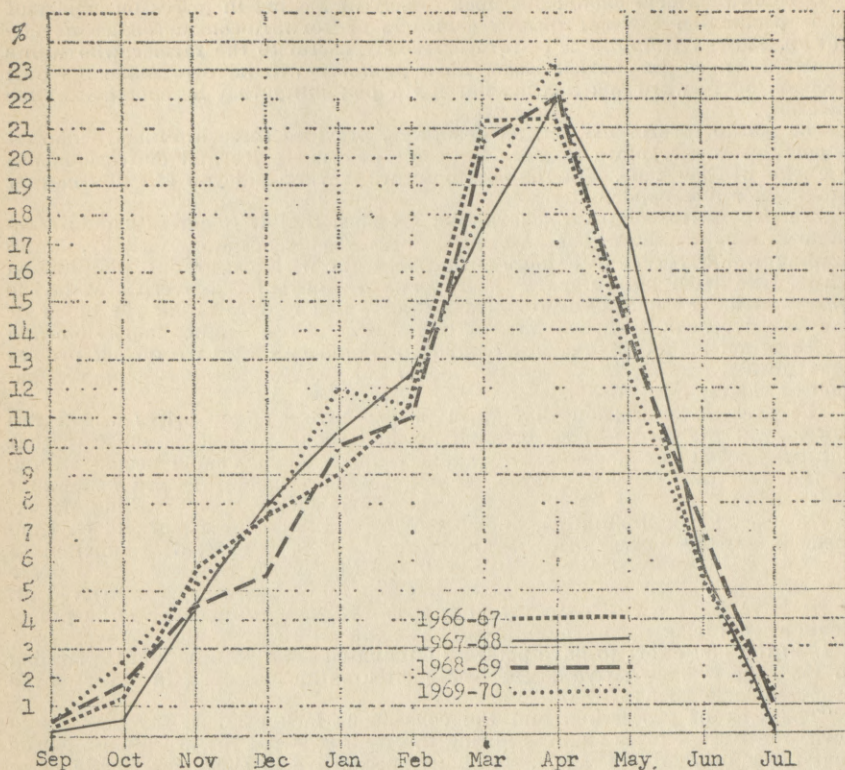
"The lack of processing, and the consequent lack of need for hedging to cover the risk of price changes during the time required for processing, means that the potato futures market is highly speculative in character. While there has been a considerable increase in the use of potatoes for food processing in recent years, this is less true in Maine than in other areas of the country."

This is not an accurate statement. In Market Survey Report No. 2, *Futures Trading in Potatoes* issued by USDA in May 1971, we find the following statement:

"Between 40 to 50 percent of the Maine crop went into processed potatoes in 1969. Approximately 33 percent was utilized by Maine processing plants for starch and processed food products, excluding potato chips. Processed potato products manufacturers utilized 28 percent of the crop starch plants processed 5 percent. In addition to 14 Maine companies, about three dozen outside of Maine used Maine potatoes. In New England 21 plants used 1.8 million cwt. and 69 other Eastern plants used 8.5 million cwt. of potatoes in the manufacture of potato chips during the 1969 crop year. A good part of these potatoes was probably from the Mainecrop. In contrast to Maine, 15 processing companies in Idaho with 22 plants processed approximately 60 percent of the Idaho potato crop."

POTATOES - MAINE

Percentages of rail and truck shipments, by months for Maine potatoes



The upward trend in potato processing enhances the need for hedging opportunity. This publication then proceeds to describe the Maine processing segment of the industry, as follows:

"There are at present six large frozen potato products manufacturers in Aroostook County, Maine. The Maine Buyers' Guide and Directory of Maine Manufacturers lists the following major processors and number of their employees in 1968:

	Number of employees
Potato Service, Inc.	601-700
Vahlsing, Inc.	451-500
General Foods Corp. (now American Kitchen Foods)	301-350
A & P Stores	201-250
Taterstate Frozen Foods	151-200
Medomak Canning Co.	101-150

"The industry has been undergoing a vast expansion program. American Kitchen Foods planned a major modernization project reported to cost over \$1 million in 1970, and three of the other large processing firms also expanded their production in 1969. Taterstate Frozen Foods was acquired in 1966 by Agway, Inc., a large regional cooperative covering 12 Northwestern States and Maine Potato Growers, Inc., the largest potato cooperative in Maine. The firm

undertook a modernization program costing \$5 million in November 1968. At present, its facilities can handle about 250 million pounds of potatoes. Taterstate has approximately 100 grower members which supply the plant with most of its potato requirements.

"J-S Industries Potato Service, the second largest potato complex in the country, has a production rate of 325 million pounds of frozen potato products a year in its plants in Presque Isle, Maine, and Grand Forks, North Dakota. Vahlsing, Inc. with a plant in Easton, Maine, is expanding its potato processing plant and at capacity will consume 100 million pounds of potatoes."

2. The opponents of trading in potatoes charge that futures trading causes extreme price fluctuations. Actually, an objective study of the following chart would indicate a generally uniform seasonal pattern of rail and truck shipments to market of Maine potatoes. Futures trading contributes to this orderly movement of potatoes and thereby reduces extreme price fluctuations.

A recent statement by Assistant Secretary Lyng answers this spurious argument against futures trading very well. He said:

"The banning of futures trading in potatoes will not solve the problems plaguing the potato grower. It will not remove the problems of overproduction, rising production costs, the need to improve merchandising methods to present an attractive product to the consumer, and the pressing competition among potato producing areas for markets."

Certainly, the facts will reveal a wide variation in the prices of Maine potatoes from one year to the next and even within a marketing season. The variation in prices for Maine potatoes generally fluctuate no more than the prices of non-Maine produced potatoes. Inelastic demand and crop size variations from year to year are the real explanations, not futures trading.

3. We have been deeply impressed by the deep concern which members of the Congress have expressed regarding the future of the family farm. The family farm is and must remain deeply imbedded in our economic, political and social structure. This is one of the fundamental tenets of the Chicago Board of Trade. We feel that family farm operators need more, not fewer opportunities to market their production and thus to be better financial managers. Hedging in the futures markets is a remarkable marketing tool which we feel should be better understood by farmers.

Therefore, we are shocked by the argument of those who would eliminate futures trading in potatoes on the premise that it would reduce production. This is presented on the theory that it would prevent some farmers from obtaining financing currently available because of hedging availability in the futures market.

This is a direct attack on the last financially able of these family farms. It leaves the implication that you had better quit potato production if you are not well off financially.

4. Another major argument against futures trading in potatoes relates to the charge that this is a perishable commodity. The marketing of perishable commodities is no exception to the need to transfer the risk of loss and to provide facilities with which growers, processors and others may hedge against price fluctuations. It is just as great in the case of perishable commodities as for other commodities. One need only look at the financial section of any major newspaper to realize that futures in live cattle, live hogs, broilers and pork bellies — to name but a few perishable commodities — are being traded in large volumes on American commodities exchanges. Therefore, the concept that futures trading is not a suitable way in which to market perishable commodities such as potatoes seems to us to be baseless.

The following data show the volume of trading in certain regulated commodities that are considered perishable and for which successful futures trading is operative:

Commodity	Unit (pounds)	Volume of Trading		
		1968-69	1969-70	1970-71
Eggs, shell.....	(1)	257,256	629,477	523,976
Live beef cattle.....	40,000	624,922	860,858	605,717
Live hogs.....	30,000	12,834	119,716	191,043
Frozen pork bellies.....	36,000	1,670,102	2,287,292	1,526,283
Frozen concentrated orange juice.....	15,000	179,906	86,870	116,879

¹ Pounds.

The Chicago Board of Trade submits that the proponents of H.R. 7287 cannot make a convincing case for the abolition of the trade in potato futures. The continued benefits of futures trading in potatoes outweigh alleged disadvantages — still unproven — of such drastic action. We submit that favorable action on the bill is not warranted.

We thank the Subcommittee for the opportunity to express these views.

STATEMENT OF JOHN W. SCOTT, MASTER, THE NATIONAL GRANGE

Mr. Chairman and members of the subcommittee, I am John W. Scott, Master of the National Grange, with offices at 1616 H Street, N.W., Washington, D.C.

The National Grange represents over 600,000 members in 41 states and over 7000 communities. Our membership cuts across the residents of rural America, embracing farmers and other residents of rural America who have not only a basic inherent interest in agriculture but who have a financial interest in the economic success and stability of farming.

The bill pending before this subcommittee, H.R. 7287, is of particular interest to the Grange, as it affects the livelihood of thousands of Grange members in many of our larger Grange states along the Eastern Seaboard and the Northeast.

H.R. 7287 would prohibit trading in Irish potato futures on commodity exchanges. Our potato farmers want this legislation to pass and the National Grange is pleased to strongly support them in their efforts to improve their price through more orderly marketing of their product.

The Grange supported similar legislation in 1964 and again in 1966. Our position was reaffirmed by the delegate body at our 104th Annual Session held in Boise, Idaho in November 1970, when they adopted the following resolution, introduced by Ronald Bagley, Master of the Maine State Grange:

"FUTURES TRADING — POTATOES"

"Whereas, the speculation in potato futures has for many years contributed to extreme fluctuations of the market in which the interests of neither the producer nor consumer are well served, and

"Whereas, the delays in delivery which have arisen since this futures market was established have created marketing problems for all producers and especially for those who produce and market early potatoes; Now, therefore, be it

"*Resolved*, That the National Grange seek legislation to eliminate the trading in futures on potatoes."

We have long held the position that futures trading has an important place in our American economy as long as it is confined to storable products. A few years ago, we had a very unfortunate experience with onions and it was found necessary to eliminate them from futures trading. In the last few years, we have had the same experience in potatoes grown in the Northeast.

There is a limit on which crops such as potatoes and onions can be held in a marketing year, and it is at the end of the marketing period that the perishable commodities which are traded in futures always get into difficulty. The futures trading has had a tendency to move the marketing period for fall potatoes from Maine back from about April 1 clean-up day into the last of May. This puts these potatoes in competition with the early Spring potatoes that are grown in our southern states, and we are faced with two crops of potatoes coming onto the market at the same time. This certainly is not conducive to the orderly marketing processes which are necessary if farmers are to receive an adequate return for their products.

In addition, during periods of over supply such as we experienced in potatoes for a number of years, the "shorts" are able to drive down the prices to unreasonably low levels. It has been conservatively estimated that this cost Maine producers 15 million per year in income and depressed prices along the Eastern Seaboard by an amount that is not easily determined.

However, this does not always accrue to the best interests of the consumer as was demonstrated by what happened in the futures trading in potatoes several years ago. The fact of the matter was that there was no reason for the exceedingly low prices that the traders had forced upon potatoes. This was demonstrated when one purchaser began covering all of the "shorts" and was

able or forced to buy over 1,900 carloads of potatoes. He justified his price by the fact that there was really a shortage of potatoes for all the market demands, including sales to consumers through grocery stores and sales to the processing companies. This led to higher prices for potatoes, especially on the Eastern Seaboard, but this seems to us to be a completely unrealistic reason for opposing the elimination of futures. Had it not been for the futures trading, this situation would not have arisen, because the potatoes would have moved more normally into the market channels without having been held up through the ownership of futures receipts.

Furthermore, if futures trading is such a good thing for potatoes, why not extend it to the whole nation instead of just to one market? The simple reason is that every potato growing area objects to making their product subject to futures trading. Certainly the regional application of this marketing practice is not justified.

It is significant that the recovery in potato prices in some years has not lessened the opposition of the potato producers in the Northeast to this kind of futures trading. The improvement in price in the beginning did not reflect any additional income to the farmers and was again a speculative venture, transferring the low prices of the farmers over to high prices to consumers without any adequate income improvement for the farmers.

One reason, and a very important one, is that trading in futures is not just a hedge against declining prices when practiced by producers. Lacking capital to protect themselves from the adverse effects of unpredictable market changes, the activity becomes a form of gaining additional credit based on a kind of "contract" farming. The undesirable economic and social effects result from the fact that the advance price received is usually too low and subsequent market improvements are not reflected in the market price when the commodity is ready to be delivered to the market.

In the light of our experiences, the previous experiences in futures trading in onions, and in light of the past experience in the futures trading in pork bellies, where the speculative activities in the market forced bacon prices far above the general increase in the price of pork products, it seems to be time that Congress takes a good look at this whole business of futures trading in nonstorable commodities.

The trading in potato futures is an economic injustice to producers that should be righted and it can be righted only by the passage of H.R. 7287 by the House and Senate. The central question is: are we going to protect the economic interest of the handful of speculators and others who use the futures market or are we going to protect the economic well-being of thousands of family potato farmers who are asking that futures trading in Irish potatoes be stopped?

We respectfully urge this Subcommittee, Mr. Chairman, to take the leadership in protecting the economic interest of the family farm potato producers by reporting out H.R. 7287 and guiding it successfully through the House.

Thank you for permitting the Grange to express our views on this legislation that is of such economic importance to potato farmers.

STATEMENT OF FERD IRISH, COUDERSPORT, PA.

Mr. Chairman, and members of the subcommittee, my name is Ferd Irish.

I am here as a Pennsylvania potato grower and president of the Pennsylvania Cooperative Potato Growers, Inc., which is a grower marketing cooperative. This cooperative's membership represents two thirds of the Pennsylvania potato growers.

As a grower and representative of Pennsylvania Potato Growers, we are testifying in favor of the elimination of the trading of the Maine potato futures on the New York Mercantile Exchange. Our reasons are many and among them are:

1. Our growers cannot hedge on the New York Mercantile Exchange because they cannot deliver on it.
2. The futures market has a direct depressing effect on our cash market price. For example, last month we should have been receiving \$4.00 per cwt. but we were only getting \$3.00.

3. As a grower for chip processing, I cannot use the board for futures trading since the chip market has no correlation with the futures market.

4. Our marketing cooperative is affected each day with the price of Maine potatoes since we supply the same markets as Maine.

Mr. Chairman, I thank you for giving us a chance to testify.

STATEMENT OF RICHARD B. AMIDON ON BEHALF OF THE EMPIRE STATE POTATO CLUB, INC.

The Empire State Potato Club, Inc., with headquarters in LaFayette, N.Y., is a non-profit organization formed to foster the potato industry in New York State. Its membership consists of potato growers and associates of the industry.

We wish to go on record that we are in favor of Bill HR 7287 to abolish Futures Trading of Irish potatoes. This is not a hasty decision but a long time position of our organization. Please note the following resolutions duly passed at our annual meetings.

At the annual meeting of the Empire State Potato Club, Inc., on 1/15/63, the following resolution was adopted; - Be it resolved: that due to the unrealistic effect on cash prices, we recommend continued opposition to the Potatoes Futures Trading on the Mercantile Exchange.

The following resolution was adopted at the Annual Meeting of the Empire State Potato Club, Inc., on January 21, 1964: "The Potato Futures — potatoes by their very nature are an unsuitable commodity for Futures Trading. Such trading in the past has inflicted severe losses to potato growers by unrealistically effecting cash prices on the Open Market.

Therefore, Be It Resolved: That due to the effect of Futures Market on cash prices, we reaffirm our continued opposition to the Futures Trading in potatoes on the Mercantile Exchange, and that we notify our Congressional representatives of our attitude."

The following resolution was adopted at our annual meeting of the Empire State Potato Club, Inc., January, 1965: *Whereas*, Futures Trading in potatoes on the New York Mercantile Exchange has been subject to obvious manipulation to the detriment of potato growers, and in particular, it should be noted the market price for potatoes rose substantially immediately following the close of the May positions in 1964.

Therefore, be it resolved, that we continue to work actively to have Futures Trading in potatoes banned on the New York Mercantile Exchange.

At our annual meeting of the Empire State Potato Club, Inc., in January, 1966, a resolution to ban Futures Trading of Potatoes on the Mercantile Exchange was adopted.

On January 20, 1970, January 19, 1971, and January 18, 1972, the following resolution was adopted at our annual meeting of the Empire State Potato Club, Inc., *whereas*: Futures Trading in potatoes on the New York Mercantile Exchange has been subject to obvious manipulation, therefore, be it resolved, that we continue to work actively to have Futures Trading in potatoes banned on the New York Mercantile Exchange.

As you can see by our adopted resolutions over the years, the members of the Empire State Potato Club, Inc., are definitely in favor of abolishing Futures Trading of Irish Potatoes on the New York Mercantile Exchange.

Thank you for your consideration.

STATEMENT OF LUMAN P. MAHANY, POTATO GROWER, EASTON, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Luman P. Mahany, a potato farmer in Easton, Maine.

I have been a potato producer for 50 years or more growing 70-75 acres of potatoes. During this time, I have been a director of the Maine Potato Council, a director of the National Potato Council many years, a member of the National Potato Advisory Committee and a member of the Maine Advisory Committee of the New York Mercantile Exchange. I am, at present, a Representative to the State of Maine Legislature. I list my connections with these

organizations so that you may better realize my active interest in the Maine potato industry.

When futures trading of Maine potatoes was first listed on the New York Mercantile Exchange, I was somewhat opposed to it. However, after considerable study and taking part in some of the constructive discussions held by Dr. Alvah Perry of the University of Maine and other economists, I realized my first decision of the usefulness of futures trading of potatoes was wrong and that I had made a snap judgment.

Having learned how a grower could and should use futures trading as a true hedge, I have taken a very favorable stand that trading of Maine potatoes on the New York Mercantile Exchange is very useful and beneficial to our potato industry.

I have used the Exchange at times to hedge part of my production and I feel it has been to my advantage. The contract is not perfect. However, I believe the contract can be improved as time goes on. I am much more in favor of improving what we have and making it more acceptable than just eliminating it.

I realize some growers feel futures trading on the Mercantile Exchange is not good for the potato industry. In my opinion, many of these growers have not taken the time to study and understand how to use this instrument as a true hedge.

I believe many growers oppose the trading of potatoes on the Exchange because they do not have or do not want to put up the cash required for the deposit and margin. In my opinion, many growers used the Exchange to hedge. However, when they sold their potatoes on the cash market, they did not lift their hedge. Consequently they really then became a speculator. If the market went against them, they were hurt. I further believe that too many growers want to use the New York Mercantile Exchange for a whipping boy. They are looking for some excuse to blame for the predicament the potato industry is in; not only in Maine, but across the country.

I think many of our growers do not make a close study of many factors that now influence our prices. For instance, as I talk with the growers, I find very, very few who have taken into consideration the effect of the large inventory of the various processed potato products that are carried ahead from one year to the next.

In my opinion, potato growers, as a whole in Maine and across the nation, ignore the guide of the USDA in the acres that should be planted to produce the amount of production which they forecast is needed for the following year's use.

Many growers do not respect and believe the accuracy of the USDA crop report. In contrast to the grower, the large buyers and users of potatoes generally will not buck the crop report. They seem to display more confidence in this government agency.

In my opinion, futures trading of potatoes is needed to counter-balance the contracts of processors and other agencies that operate on season contracts. In my opinion, the New York Mercantile Exchange makes available to the public, an honest price that can be known to all growers. In my opinion, the New York Mercantile Exchange gives the grower many months to observe the price situation, thus he has a better opportunity to adjust his sales operation. In my opinion, some speculation as to price is needed in our potato industry. This is supplied by users of the Exchange.

Maine will continue to produce, sell and distribute potatoes with or without the use of the Exchange. However, in my opinion, it would be a step backward to eliminate futures trading of Maine potatoes on the New York Mercantile Exchange. I strongly urge the Members of this Sub-Committee on Domestic Marketing to oppose H. R. 7287.

In closing my statement, I wish to clearly point out that I am not representing any group. I speak only for myself as a potato grower with many years experience in the joys and griefs of our great potato industry in the State of Maine.

STATEMENT OF JOSEPH SOLOMON, POTATO BUYER AND SHIPPER, FORT FAIRFIELD, MAINE

Mr. Chairman and members of the Subcommittee. My name is Joseph Solomon and I am a potato buyer and shipper in Fort Fairfield, Maine. I buy and

ship cars of potatoes each year from farmers in the Fort Fairfield area. I have taken this business over from my father and have been in business since .

My entire potato operation is based on a sound hedge program on the New York Mercantile Exchange.

Each year I agree to take fall and winter potatoes delivered to my warehouse at a pre-determined price which each farmer agrees upon in the late winter, before these potatoes are planted, and in some cases after they are planted. These prices are better than their cost of production and I feel this is very good business for these farmers. I can do this by using the futures market as a price protection for myself and in turn give the farmer a satisfactory price for these early delivered potatoes.

So you see, Mr. Chairman, these several farmers are directly affected by the New York Mercantile Exchange and are primarily receiving the benefit of this marketing tool. Some might say that without the futures market, they would cut their production back and therefore the State would have a better supply situation to create a better demand and ultimately a better price. I say this acreage would be planted in the hopes of receiving this price later as these farmers are farming their farms through efficient management practices such as rotation and equipment utilization standpoint.

I urge you members of this Committee to vote against H.R. 7287.

Thank you, Mr. Chairman

STATEMENT OF NORMAN D. OUELLETTE, POTATO GROWER, VAN BUREN, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Norman D. Ouellette, a potato farmer in Van Buren, Maine.

I was born and brought up on my farm and have been farming for 19 years on my own since purchasing the farm from my father. I raise 200 acres of potatoes along with grain and hay.

I believe in futures trading and use it every year as a hedge for prices better than the cost of production.

I am a director of Aroostook Federation of Farmers, a large fertilizer cooperative and I have been a director of the Maine Potato Council.

I don't believe that legislation should be passed to eliminate futures trading of Maine potatoes. I know many farmers in my area who use the New York Mercantile Exchange and I am sure the Maine farmer needs this market for their potatoes.

I urge you to vote against H. R. 7287.

STATEMENT OF BERNARD R. SMITH, POTATO GROWER, MARS HILL, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture, I am Bernard R. Smith, a potato farmer of Mars Hill, Maine.

I wish to express my disapproval of any legislation to eliminate potatoes from being traded on the Exchange.

The first of this week, January 11, 1972, the Crop Reporting Board for monthly Disappearance and Stocks on Hand seemed quite favorable. After this report, the Exchange showed a move of 25¢ per cwt. for the May option. This brought the price of potatoes into the neighborhood of approximately \$5.00 per barrel.

There is no present opportunity to sell potatoes at this price, to my knowledge, in this County.

To my way of thinking it seems not feasible to eliminate this opportunity to sell part or all of my crop for what would bring a profit to my potato operation.

I have been farming approximately 200 acres of potatoes and 100 acres of peas. Since the discontinuance of peas, I have had to rely solely on the income from potatoes. I am only sorry that I did not use the Exchange more to protect my investment since I have been forced to cut my production by 75 percent and am in grave danger of losing the farms which I have been working hard for all these years since World War II. I have hoped that I may sell my operation and get a job working for a weekly wage which is much more lucrative than what I am facing today in farming.

STATEMENT OF L. E. RAND, PRESIDENT OF L. E. RAND CO., INC., POTATO BROKERS
AND SHIPPERS

Mr. Chairman and members of your committee, my name is Lester E. Rand. My company represents over fifty potato growers here in Aroostook County, Maine. The majority of my growers use the New York Mercantile Exchange to hedge a portion of their crops when the opportunity presents itself.

The grower's banks and loaning agencies finance them on hedging potatoes on the New York Mercantile Exchange. This financing consists of the initial margin requirements and any additional maintenance money. In fact, the banks and loaning agencies encourage these growers to use the Exchange, especially when the price is at least cost of production or it shows the grower a profit. Practically every year, at one time or another, there is an opportunity on the New York Mercantile Exchange for the grower to do just that.

Should the Board be eliminated, the farmers will be at the mercy of the processors and the processors will dictate to the farmers what the price will be. Now that we have the Board, this is the bargaining tool that the farmers can use against the processors.

Seventy-five percent of the potatoes that go into table stock channels are sold to chain stores, and they do not buy futures. They buy whatever the cash market is from day to day. The growers here in Maine need an outlet where they can sell futures and the New York Mercantile Exchange is the answer.

By eliminating the Board, you will have lost the largest buyer for our product, and by doing so, will not solve our problems. There is only one thing that can cure low prices and that is not to produce more than the consumer can use. Get the potato industry nation-wide to get their acreage more in line with what the consumer requires and that will take care of depressing the price—it's just that simple.

STATEMENT OF LEON E. MILLIKEN, BEAVER BROOK FARMS, CARIBOU, MAINE

Beaver Brook Farms, Inc. is a potato dealer organization located in Caribou, Maine; was organized in 1947, and has used the facilities of the futures board of the New York Mercantile Exchange regularly since it began to be of economic significance as a hedging medium in 1951. As dealers, we have practiced hedging so as to protect ourselves against loss on potatoes bought from growers for future delivery. Futures trading enables all growers and shippers to protect themselves against loss by transferring the price risk. This is an advantage to those who understand and use it, and one sadly underrated and wrongly interpreted by those who do not avail themselves of the advantages it offers.

With the existence of a futures market, even when prices become disastrously low, there is still a place where potatoes can be sold at some price. In the old days long before formal futures trading was begun, when prices got low, there would be times when no sales of potatoes could be made at any price. The buyers just disappeared. With the futures market there is liquidity and always a price available. Opponents of futures trading do not seem to realize that the whole distribution pattern of potatoes has changed radically in recent years. The independent dealers and buyers who used to travel through the County, and make futures purchases with \$100 and \$200 deposits have disappeared and mostly gone out of business. Now it is the chain store and processor who are the major potato distributors. The old-fashioned way of hedging with an independent buyer is long gone. When the market dropped, the buyer could always find some reason to renege on his contract. The futures board never reneges on a sale, all sales are backed by considerable resources.

In addition to our potato dealer activities, we make contracts to supply fertilizer to growers on the basis of futures board potato prices. Through the use of the futures board our growers can obtain fertilizer in return for potatoes at prices based on the futures market. This transfers his risk of a lower market where he would have to expend a greater percentage of his crop in order to pay for his fertilizer needs. This is only one method in obtaining short-term financing, which without question is one of the desperate needs of the potato business in Maine.

In addition to its other attributes, the futures market is a tremendous source of market information for the potato industry. This information enables the

growers to determine the market value of potatoes at any time. Bids and offers are made openly. There is public registration of all executed contracts. The information is open and accurate.

In conclusion we wish to state that the Maine potato industry can ill afford the elimination of this valuable market. Its aid in obtaining short-term financing, its ability to transfer price risks, its great source of market information, and its integrity as an open public market with iron-clad contracts can only result in benefit to the Maine potato industry.

STATEMENT OF CHARLES PANGBURN, POTATO GROWER, CARIBOU, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Charles Pangburn of Caribou, Maine. I have been a potato grower and shipper for over thirty years. My present acreage is approximately 350 acres.

I wish to tell you why I am strongly opposed to H. R. 7287 and wish to see futures trading in our potatoes continued without interruption.

Without a futures market where I could hedge a part of my crop to pay my expenses, I probably would not be farming today.

The New York Mercantile Exchange offers me and/or my creditors an opportunity to sell enough of my crop to cover my accounts payable. In this business-like manner they can stay in business and I can continue growing potatoes to feed the consumer. This is necessary and is the only business I know.

I have to carry insurance on equipment, buildings, and people, so why shouldn't I insure price risks by hedging enough potatoes to cover expenses.

It appears to me that in our democratic system we need an open market such as this, offered to speculators and the trade, and regulated by the USDA Commodity Exchange Authority.

I urge this Committee to vote against H. R. 7287.

STATEMENT OF RAYMOND CYR, POTATO GROWER, VAN BUREN, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture. I am Raymond Cyr, a potato grower in Van Buren, Maine, where I have lived all my life and am presently farming the family farm.

I raise 175 acres of potatoes and sell on the New York Mercantile Exchange every year to assure me of a price that I feel is better than what it costs me to produce these potatoes. I sell November, March, and April and lift my hedges when the month comes and sell these cars on the open market.

I am a director of Agway, Inc., a large cooperative in Presque Isle, Maine.

I have been farming for 18 years and feel that as this industry gets more competitive, I need to have the chance to hedge my potatoes on a futures market. I grow seed for Agway, but I have to sell a part of my crop on the open market and this is where I use the New York Mercantile Exchange to assure me of a satisfactory price for these potatoes.

I am strongly opposed to H.R. 7287.

STATEMENT OF NORMAN A. GUY, POTATO SALES MANAGER, FORT KENT, MAINE

Mr. Chairman and Honorable Members of the Subcommittee on Domestic Marketing of the House Committee on Agriculture, I am Norman A. Guy, Manager, Fort Kent Seed Growers Assn. of Fort Kent, Maine. I handle seed, table-stock, and processing potatoes for our members. I wish to state that I am opposed to H.R. 7287 which would ban the trading of Potato Futures.

I feel that futures trading is needed for the benefit of the potato farmer and should be continued without interruption. In my humble opinion, I feel that when used properly, Maine Potato Futures Trading is the best means by which a potato grower can be assured price protection for his crop. When used properly, as an edge, it will protect his investment and assure him of a profit for

that investment. It protects the small grower as well as the large grower. The potato grower has the opportunity to market his crop at anytime during the market season, if and when he is satisfied with the price.

Discontinuation of Futures Trading will not in anyway solve the problems of the potato grower, as claimed by the opponents of this bill, but may well mean lower returns and lower prices for his crop, especially the small farmer.

It is my sincere belief that if the potato grower would understand fully the working of the Futures Market he would be against this proposed bill, and would use the facilities and the service of the New York Mercantile Exchange to sell his crop.

I would like to call your attention to an article in the February issue of "TOP OP" (a farm journal publication) under the heading, FUTURES MARKET. This article points out the reasons why Corn Growers were reluctant to use the Futures Market to edge their crop. Even though corn is considered a basic, non-perishable commodity compared to potatoes which are perishable, the reasons given for not using the Futures Market were basically the same. This again brings out the fact that lack of understanding of the Futures Market is the real problem.

CARIBOU, MAINE, February 8, 1971.

HON. CHARLES M. TEAGUE,
Congressman, California 13th District,
Washington, D.C.

DEAR CHARLES: I have been requested to express my views to you and the Agricultural Committee of the House of Representatives on the subject of the elimination of the Mercantile Exchange on Maine potatoes.

At the outset let me say that I am giving my opinion as an individual and not as representing any faction of the potato industry in Maine or of the banking business.

I resigned as President of the Aroostook Trust Company last November and am not a candidate for the Board of Directors at their annual meeting in February.

However, over the period of approximately thirty years that potatoes have been bought and sold on the future's market, I have observed some of the things that have happened in potato marketing. When the Mercantile Exchange first got into operation, the farmers were afraid of it, trading was rather slow and the big majority of farmers did not use it. Also, during part of the 1940's potatoes were subsidized by the U. S. Government. After the subsidy was stopped (except for starch potatoes and feed for animals) there was more interest in the future's market. More farmers began to sell for delivery on the New York Market a portion of their crop for future delivery. This worked all right when the farmer sold at a fair price and had the potatoes on hand to make shipment at the trading date. In fact most of the banks in the County of Aroostook would advance to the grower money required by the Exchange, taking back a brokerage assignment, when they had faith in the farmer and knew that he could fill his contract. The banks, however, did not finance farmers whom they felt were simply speculating on the market.

I would say that from the period from 1950 to 1960 the Mercantile provided an opportunity for the alert farmer to sell part of his crop at a better price than perhaps he would have gotten by simply holding his crop to the end of the season. I think that you should know that the whole system of marketing potatoes had changed during this period. The processors had come into the Aroostook County area and were buying a fair percentage of potatoes. The other buyers (other than for seed potatoes) were largely bought by the large chain buyers. The number of smaller independent buyers accounted for only a very small portion of the crop.

After 1960, I believe that the rules of the exchange were changed somewhat. The trading months are now November, March, April and May. Usually many more trades are made for April and May because usually the price is higher during those months. This has created a bad situation. For instance if the shipments scheduled for May were consumed, and the cars shipped, it

glutted the market. And while the farmer usually got his money, it made a very bad situation in transportation and in the time involved by the farmer during his planting season.

Furthermore, I believe that the Mercantile Exchange has become now pretty much of a speculative deal on the part of both the seller and the buyer. It is my opinion that is not good because so many factors enter into the deal. Many of the buyers I feel are just trying to make a quick buck, and often have the opportunity to manipulate the market to their own advantage. This is merely my thinking and I have no evidence to prove it. I do know that some farmers have been hurt badly by trying to beat the market. Also the number of transactions are so entirely out of line with the production of potatoes, and cars actually shipped, that it has very little relation to supply and demand.

The elimination of trading Maine potatoes on the Mercantile Exchange is not a cure-all for the potato growers of Maine. The basic need I feel is more concentration on selling practices that give the consumer a good grade of potatoes packed uniformly. This would probably require more central packing facilities.

However, in conclusion I believe that unless speculation as it now exists can be changed, it would be to the advantage of the Maine potato farmer to eliminate the present system under which Maine potatoes are traded on the Mercantile Exchange.

Sincerely yours,

S. W. COLLINS.

LOUIS N. RITTEN & Co., Inc.,
January 17, 1972.

Hon. W. R. POAGE,
Chairman, House Agricultural Committee,
House Office Building, Washington, D.C.

DEAR CONGRESSMAN: The potato industry has done a better job of marketing since Idaho futures have been traded in Chicago (1968 to the present). In 1967 prior to Idaho futures the government had to purchase and divert to non food usage 14.7 million hundredweight of potatoes and cash prices declined as low as \$3.30-\$3.50 Chicago. We have had two records crops since 1967 and marketed them at average or better prices. Futures have also acted as a stimulus to boost farmer prices on many different occasions.

Potato processing accounts for more than 60% of potato usage in Idaho. In each of the last two seasons the processors have used their own supplies early and let the farmer with the open potatoes wait until late in the season. Price insurance is a must for a farmer who grows open potatoes for the processor. Futures not only provide the price insurance but they also provide a marketplace where prices are determined competitively.

Price insurance is a proven economic tool—potato farmers are developing into a major medium of risk reduction. We all learn from our mistakes and there have been a few flaws in the Idaho contract. As these flaws were detected the Chicago Mercantile Exchange acted promptly to amend the contract. Many changes were made this past summer and more changes are being contemplated. Futures contracts for corn soybeans cattle, etc. have been changed many times and have become an integral part of the marketing picture.

Maine contends that their futures market tends to delay marketing of their crop. My own feeling is that heavy competition in the season prevents Maine from competing at low price levels. As other areas clean up Maine becomes the source of supply; I do not believe that futures are the prime cause.

What is really lacking in regards potato futures is knowledge of how they can be used to aid a good marketing plan. Most farmers have never attempted to integrate futures into a pre determined marketing program. More farmers and businessmen are becoming aware of the value in good price insurance.

Let's work towards improving the futures market, not eliminating it; give the changes that have been made a chance to prove themselves and direct criticism to the Exchanges where improvements in the contracts can be made.

ALEX SINCLAIR.

SCHEDULE OF FUTURES PRICES AND CASH PRICES FOR IDAHO POTATOES

	Futures		Cash		
	Low	High	Low	High	
1968-69.....	\$4.87	\$7.94	\$5.00	\$7.25	Prices advanced early due to advancing futures.
1969-70.....	4.86	6.61	4.50	6.75	Record crop marketed at average to slightly above average prices.
1970-71.....	4.48	6.10	4.25	6.00	A new record crop marketed at average to slightly below average prices.

LAMB'S,
January 31, 1972.

HON. THOMAS S. FOLEY,
*Chairman, Committee on Marketing and Consumer Relations,
House of Representatives, Washington, D.C.*

DEAR MR. FOLEY: We would like to go on record as being opposed to this bill.

The trading of commodities on the futures market is a long-established part of the economic framework of our company and is a very useful tool in the business management of the farm community and the food processing industry. It is my very firm belief that trading in commodity futures is also considerable benefit to consumers in that the prices arrived at are a distillation of all of the information possessed by everyone and thus a true reflection of economics is achieved. Were this not the case, individual groups possessed of particular bits of information could much more readily control and take advantage of situations which would not be in the interest of the general public.

As a processor, we use huge quantities of fats and oils and potatoes. The futures market of both of these products are important to us in determining the future costs of our manufactured products, future contract prices to our customers as well as providing a medium for hedging unsold inventories.

I see no reason to single out the potato futures market for demise. I believe the potato futures is an accurate reflection of the many circumstances throughout the country which go into determining a fair price for potatoes in a free market.

I have heard rumors of trading abuses, particularly with regard to a mid-western exchange. This, it seems to me, is beside the point. I should hope that the government has ample power to regulate these exchanges, and I think they should use it to the maximum degree.

In conclusion, we are in favor of commodity trading in general and in potatoes, fats and oils in particular. We are also in favor of stringent CEA supervision, control and regulation in the trading of all commodities. We would appreciate your making this letter a part of the record in the consideration by your committee of HR 7289.

Thank you.

Sincerely yours,

JOHN L. BAXTER, JR., *President.*

JOSEPH SLEEPER GENERAL STORE,
Caribou, Maine, March 25, 1972.

SUBCOMMITTEE ON DOMESTIC MARKETING AND CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE

DEAR SIR: My concern, as a Caribou business man and a Northern National Bank Advisor, has never been greater for the local potato farmer. The potato farmer's cash flow and profit has been on a steady decline over the past ten years. The local farmer has no chance to market his crop fairly on the Exchange. He has had to pre-sell his crop each year below the cost of production. The Exchange is in no way benefiting the farmer. My business success in Caribou depends greatly on the farmer. If something is not done in the near

future to eliminate the Exchange it will be a tragic situation for all area business men. The farmers' situation is critical and the livelihood of the whole area depends primarily on the farmer.

Sincerely,

NELSON F. SLEEPER, *Partner.*

RYAN FARMS,
East Grand Forks, Minn., February 26, 1972.

SUBCOMMITTEE ON DOMESTIC MARKETING,
House Committee on Agriculture,
U.S. House of Representatives, Washington, D.C.

GENTLEMEN: The purpose of this letter is to urge you not to act favorably on H.R. 7287, the bill to eliminate futures trading in Irish potatoes.

Passage of this bill would deprive potato growers throughout the country of urgently needed protection. We operate 1500 acres of potatoes and futures trading gives us great elasticity and protection in financing and in price protection. Futures trading is an important economic function in today's agriculture, and to those of us in the potato industry, an understanding of how and when to use futures trading for price protection is part of our basic training. Getting rid of futures would be like getting rid of our modern fertilizers and seed potatoes. It would return us to a much more primitive way of operating.

We in the potato business need to stop overproducing, we need to improve our grading and marketing, we need to find more ways to process potatoes and we need to upgrade the image of our product with the consumer. The elimination of potato futures trading will accomplish none of the real needs of the industry. The loss of futures trading would simply hamper those of us who are working hard to supply the public with excellent potatoes with as little risk as possible to ourselves and at the lowest price per hundred pounds possible. Both Producers and public would suffer, and who in the world would possibly gain? The ability of potato farmers to hedge their crops on the futures market is a precious right and should be protected. We urge you not to pass H.R. 7287 and eliminate futures trading, an economic tool those of us who raise potatoes need so much for the protection of our businesses.

Sincerely,

THOMAS W. RYAN.

Mr. SISK. The committee stands adjourned, subject to the call of the Chair.

(Whereupon at 12:04 p.m., the committee adjourned, subject to the call of the Chair.)

